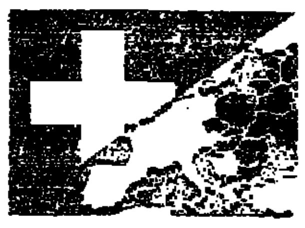
# FINANCIAL TIMES



**Great VAT mystery**
*Tax: the UK's £6bn black hole*
Page 17

**Atlanta's Olympics**
*Swatch: off the wall but at the track*
Page 14



**Today's surveys**
*Central/E Europe*
*Switzerland*
Separate sections

World Business Newspaper — MONDAY APRIL 15 1996

## Germany close to legalising share buy-backs

German companies could be only about a year away *from being allowed* by buy back their own shares. Max Dietrich Kley, finance director of BASF, said the justice ministry had agreed to legalise buy-backs, and he hoped German law would be amended "by the end of this year". The justice ministry itself confirmed there had been internal discussions on changing the law. Share buy-backs are popular in Britain and the US, where more than 300 companies have announced plans to buy back $40bn of stock so far this year. Page 19

**Bank of Ireland**, the republic's second biggest bank, *will today* announce it is acquiring Britain's Bristol & West building society for £600m ($912m). Page 19

**UK government threatened:** Senior members of Britain's ruling Conservatives warned they were ready *to risk bringing down the government if the* party moved further to the right or made more concessions to the anti-European faction. Page 7

**Withdrawal set to start:** Russia will start withdrawing some of its troops from rebel Chechnya today, Vyacheslav Tikhomirov, commander of joint Russian forces in Chechnya, said. The withdrawal was proposed under President Boris Yeltsin's peace plan.

**Tampella is bid target:** Swedish tools and steels group Sandvik bought a 26 per cent stake in Finland's Tampella, triggering a bid battle for the engineering group, which was last week offered a merger deal with another Swedish company. Page 19

**Hostage businessman freed:** Basque ETA *separatists* freed a businessman after holding him hostage for almost a year. José Maria Aldaya, head of a transport company, was found in woodland in northern Spain's Basque country. Page 2

**Call for action against ageism:** Eighty-five *per cent of British managers want legislation to* protect employees from age discrimination, according to an Institute of Management survey. The UK government favours lifting age barriers at work but believes this should be achieved voluntarily, not by legislation. Page 7

**Vietnam deportation threat:** Foreign employers who abuse Vietnamese workers risk deportation and cancellation of their projects under plans by the country's only trade union, which is linked to the ruling communists. Page 18

**Pakistan blast kills 5:** A bomb tore through a Lahore cancer hospital built by former Pakistan cricket captain Imran Khan, killing at least five people and injuring more than 30. The blast came the day day after Mr Khan said he was considering launching a new *political* party. *Page 6*

**Message misled fire victims:** The wrong evacuation message was broadcast during the Düsseldorf airport fire last Thursday, officials said, and may have misled some of the 16 people who died. The announcement *told passengers to go to* the arrivals floor – the heart of the blaze. Page 3

**Faction offers Liberia truce:** The tribal faction at the centre of fighting in the Liberian capital, Monrovia, offered a truce if rivals withdrew from *the streets. The US wound up the first stage of* a rescue mission in which helicopters have ferried more than 1,500 foreigners from Monrovia.

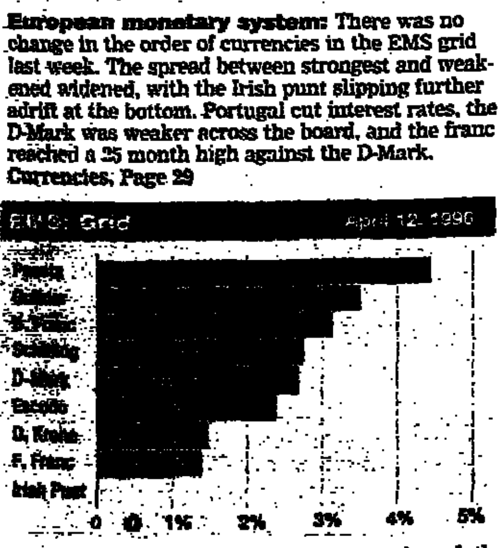
**Primrose path to recovery:** Argentina is slashing duties on whisky and cigarettes by up to 80 *per cent today to try to revive its flagging economy.* It hopes increased drinking and smoking will more than offset the lost duty revenue. Page 4

**Ramaphosa to quit:** Cyril Ramaphosa, secretary-general of the African National Congress party which dominates South Africa's coalition government, is leaving parliament to help black-owned business gain a bigger economic stake. Page 4

**Bahrainis sentenced:** Bahrain jailed 15 Shia Moslems held in connection with anti-government protests. The protesters have been demanding the release of political prisoners and the restoration of parliament dissolved in 1975.

**Chinese films censored:** China's censors have banned five films, according to New Life Weekly periodical. Directors were criticised for focusing on sex and drugs rather than lofty communist ideals.

**European monetary system:** There was no change in the order of currencies in the EMS grid last week. The spread between strongest and weakened widened, with the Irish punt slipping further adrift at the bottom. Portugal cut interest rates, the D-Mark was weaker across the board, and the franc reached a 25 month high against the D-Mark. Currencies, Page 29




*The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.*

Proposal comes as ministers plan ERM II

# Call for non-Emu currencies to be allowed loose link

By Gillian Tett in London and Andrew Hill in Verona

Countries which fail to adopt a *European single currency should* not be forced to tie their currency too tightly to it, the European Monetary Institute believes.

The EMI, whose views reflect those of Europe's central bankers, *is calling* for any new exchange rate mechanism to be flexible, with "relatively wide" bands in which non-Emu currencies could move.

The institute's suggestion comes as preparations for a new ERM are stepped up, after a weekend meeting of the 15 European Union finance ministers and central bankers in Verona.

Ministers agreed to create a new mechanism if European monetary union starts as planned in 1999, with the aim of linking countries which fail to enter Emu with the Euro, the name chosen for the new currency.

The decision reflects a snub to Mr Kenneth Clarke, UK chancellor of the exchequer, who insisted Britain would not enter a new ERM. However, Mr Lamberto Dini, the Italian prime minister who chaired the meeting, said: "The [UK] position was isolated, so the European Union is moving towards an exchange rate arrangement, which will be called ERM II, and will be defined during 1996."

*Mr Dini acknowledged that the* UK could not be forced into an ERM. However, France and other countries are seeking means to discipline countries which might devalue their currencies or *pursue lax fiscal policies.*

The European Commission is examining French proposals to cut funds if countries run excessive budget deficits. It also said the economic policies of countries outside Emu should be vetted by EU finance ministers to ensure they are moving toward convergence.

Those ideas are opposed by the UK. Mr Clarke's position was further undermined when France and Germany insisted that any country wanting to join a single currency would need to have been in the ERM for two years.

Although the threat is partly aimed at Italy, which is outside the current ERM, it may reduce the UK's ability to opt into a single currency if it wishes to do so.

Mr Eddie George, governor of the Bank of England, insisted that the stress on ERM membership for entry into a single currency was "completely dotty".

However, some senior Conservative Eurosceptics yesterday welcomed it as a sign that the UK was now firmly excluded.

*Mr Alexandre Lamfalussy*, president of the EMI, the forerunner of a European central bank, told ministers that any ERM should be very flexible. Although it would have wide bands, some countries could have tighter links with the Euro, he said.

He insisted the European central bank should have the final decision on currency bands, rather than the "outs". And, while intervention by to support currencies "should in principle be automatic", the ECB could suspend it if it chose to.

This position largely reflects the demands of Mr Hans Tietmeyer, the Bundesbank president. However, the Germans apparently toned down another demand at the weekend. Although Mr Theo Waigel, German finance minister, has called for a rigid fiscal stability pact with heavy sanctions, he appears to have accepted a Commission plan to strengthen the existing mechanisms for punishing excessive budget deficits.

Verona victory for all, Page 2
Observer, Page 17


Pro-democracy groups protested in Hong Kong yesterday as Chinese officials hosted consultations on political institutions in the territory after its handover *to China next year*, John Ridding in Hong Kong writes.

Several hundred people marched to the Xinhua news agency, China's de facto embassy in the colony. The demonstration reflected concerns about China's stance towards the handover and its decision to replace the territory's *legislature. The* banner at the front says: "Protest against the setting up of the provisional legislature." Picture: AP

## UBS chief hints at link-up with rival SBC group

By Ian Rodger in Zurich

Union Bank of Switzerland, which on Thursday rejected the idea of a merger with CS Holding, the group built around the Credit Suisse bank, has opened the possibility of a marriage with Swiss Bank Corporation.

Mr Nikolaus Senn, UBS chairman, said in an interview with a Swiss Sunday newspaper the rejection of CS Holding did not mean the bank had closed the door on mergers in the future.

Asked who he would see as a possible partner, Mr Senn replied: "Swiss Bank Corporation would be more compatible with us than CS Holding."

Had he already spoken with SBC about it? "Ah, you know, people talk about various things. However, I view a merger of two of the big three Swiss banks as not opportune at the moment. In the first place, each is strong enough. Second, it would not be socially or politically manageable."

But, he added: "Who knows how things will seem in five years? It depends on the circumstances."

The revelation last week of a proposal by CS Holding that it and UBS explore the possibility of a merger aroused strong public opposition within Switzerland. Analysts said it might lead to about 10,000 redundancies.

Leading politicians and businessmen attacked the idea at a time when unemployment in Switzerland was at a postwar record high level of 4.6 per cent.

However, many analysts also believe there will be large-scale redundancies within the overcrowded Swiss banking sector, regardless of any mergers.

Mr Senn, who said UBS had plans to close 30 branches with 1,000 job losses, may have wanted to warn people that there was no reason to take great comfort from *UBS's* rejection of a merger with CS Holding. UBS confirmed the accuracy of the account of Mr Senn's interview, which appeared in the tabloid newspaper Sonntags Blick. The bank added that a

Continued on Page 18
Lex, Page 18
Return of the tormentor, Page 19

# Thousands flee Israeli attacks on Lebanon

By Mark Dennis in Jerusalem

## Arab leaders condemn operation against Hizbollah

Israel stepped up its air and artillery bombardment throughout Lebanon yesterday, causing hundreds of thousands of civilians to flee their homes as Arab leaders condemned the attack on Hizbollah guerrillas, saying it would put the Middle East peace process in serious jeopardy.

Mr Ehud Barak, Israeli foreign minister, said Israel would halt the operation, codenamed "Grapes of Wrath" and now in its fourth day, if Hizbollah ceased its attacks.

He said: "What we have said is *if the conditions* will be created by actions of the government of Lebanon that would make the shooting of Katyushas toward Israel something which is practically impossible, then we will be ready to negotiate." His comments came as Hizbollah sent dozens of Katyusha rockets crashing into northern Israel, the largest barrage in recent memory, causing minimal damage but sending a defiant message.

A Hizbollah spokesman said the group would continue to rocket northern Israel.

The latest round of tit-for-tat violence began in early March and the rising border tension, coupled with the need for Mr Shimon Peres, Israeli prime minister, *to get* tough with Hizbollah ahead of May 29 Israeli elections, had the border region bracing for such a move.

Mr Barak and Israeli officials have made clear they are putting military pressure on the Lebanese government – and its Syrian backers – to rein in Hizbollah.

Mr Rafik Hariri, Lebanese prime minister, asked Egypt *to* mediate in an effort to stop the attacks during a meeting with Mr Hosni Mubarak, Egyptian president, yesterday in Cairo.

Syria, which has 35,000 troops in Lebanon, said Washington was jeopardising its role as peace broker in the region by supporting the Israeli operation. Israel suspended US-sponsored peace talks with *Syria* after a wave *of* Islamist suicide bombings.

Jordan, the six countries of the Gulf Co-operation Council, and the Palestinian Authority also condemned the attacks.

Yesterday's mass evacuation was provoked after Israel imposed a deadline of 3pm GMT on Sunday for some 500,000 civilians to evacuate more than 80 villages and towns, including the ancient port city of Tyre, after which they would be considered as targets. "Hizbollah uses civilians for protection; we are removing that shield," said an Israeli military official.

In addition to the attacks in the south, Israeli helicopters bombarded Beirut's southern suburbs, where the Hizbollah headquarters are located, hitting a power station.

Mr Barak made it clear the intention was to inflict at least equal damage on Lebanon as Hizbollah was inflicting on northern Israel. Israeli jets continued to pound suspected targets in the Bekaa Valley, where the guerrillas maintain training bases.

The air attacks have drawn extensive Lebanese anti-aircraft fire. Lebanese officials said at least 21 people, mostly civilians, had been killed.

# Early France Télécom sale possible after muted protest

By David Buchan in Paris

The French government may now make an early move to sell off a minority stake in France Télécom in the wake of last Thursday's anti-privatisation *strike in which less than half the* public utility's 155,000-strong workforce took part.

Mr Michel Bon, France Télécom's president, said the strike turnout of 45 per cent "remains a lot" but was less than in *1993-95* when 65-75 per cent of staff took part in protests against a change in the utility's status.

Mr François Fillon, the telecommunications minister, said the failure of the unions to mobilise more members was a sign that Mr Bon was succeeding in explaining government plans to his employees.

The government has promised to retain a 51 per cent stake in the utility and let existing employees keep their civil servant status, as well as offering to negotiate additional guarantees on pensions.

Mr Fillon urged the unions, most of which have so far refused to negotiate with Mr Bon, "to get around the table" with the France Télécom management.

The SUD union, one of the most militant, acknowledged in a statement that the government might now be "tempted to force the pace", but warned it would *react by calling a strike.*

A senior government official said: "While it is too early to rejoice, it appears to be getting through to France Télécom employees that the government *guarantees allow them to 'have* their cake and eat it'."

France Télécom staff could combine the security of remaining civil servants with the benefits of working for a company *that would be more competitive* following partial privatisation.

France Télécom is still legally an arm of the government administration. Before any sell-off, the government would need to pass a bill through parliament to incorporate it into a company with its own capital. A draft bill to do this might come as early as next month, but the government *might want to await discussions* between Mr Bon and the unions.

France's other "strategic" privatisation planned for this year – the sale of the Thomson electronics group – is taking shape. President Jacques Chirac's call for Thomson to be sold en bloc was widely interpreted as requiring buyers to bid for Thomson Multimedia, the consumer electronics company, as well as Thomson-CSF, the defence electronics company.

Mr Marcel Roulet, the new Thomson group president, has yet to make detailed privatisation *proposals to the government.* But the latter now argues that its only key interest lies in the sale of Thomson-CSF as a whole, around which a stronger French or European defence electronics *industry would be constructed.*

The government would still like to sell all of Thomson. However, it accepts that very few buyers might be ready to bid for both halves of Thomson and therefore that Multimedia might be sold separately, or not at all.

Two French groups, Alcatel and Lagardère, are publicly vying for Thomson, but to varying *degrees* have expressed more interest in the profitable Thomson-CSF than in the lossmaking Multimedia.



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Albania | Lek 220 | Germany | DM4.00 | Lithuania | Lita 15.00 | Qatar | QR13.00 |
| Austria | Sch37 | Greece | Dr600 | Lux | LFr75 | S.Arabia | SR12 |
| Bahrain | Din1.250 | Hong Kong | HK$70 | Malta | Lm0.85 | Singapore | S$4.30 |
| Belgium | BFr75 | Hungary | Ft230 | Morocco | MDh18 | Slovak Rp | Sk65 |
| Bulgaria | Lw130.00 | Iceland | IKr220 | Neth | Fl 4.75 | S. Africa | R12.00 |
| Cyprus | C£1.20 | India | Rs75 | Nigeria | Naira50 | Spain | Pta250 |
| Czech Rp | Kc60 | Indonesia | [illegible] | Norway | NKr20.00 | Sweden | SKr20 |
| Denmark | DKr18 | Iran | [illegible] | Oman | OR1.50 | Switz | SFr3.70 |
| Egypt | E£5.00 | Israel | [illegible] | Pakistan | [illegible] | Syria | S£65.00 |
| Estonia | EKr 22 | Italy | [illegible] | Poland | [illegible] | Tunisia | Din1.750 |
| Finland | FM15.50 | Jordan | [illegible] | Portugal | [illegible] | Turkey | L80,000 |
| France | FFr11.50 | Lebanon | [illegible] | | | UAE | Dh12.00 |

## CONTENTS


**News**
International News ..... 2-4,6
UK News ..... 7
Guide to the Week ..... 38
The Week ..... 9
People ..... 9
Weather ..... 18
Lex ..... 18
Week Ahead ..... 9

**Features**
Leader Page ..... 17
Letters ..... 16
Observer ..... 17
Management ..... 10
Sport/Architecture ..... 14
Media Futures ..... 13
Business Travel ..... 12
Arts ..... 15

TV and Radio ..... 15
Crossword ..... 36

**Companies**
Companies & Finance ..... 20-22

**Markets**
Fond Mng't/City People ..... 24
Markets This Wk ..... 25-27
Int Equities ..... 25
Emerging Markets ..... 27

International Bonds ..... 27
FT/S&P-A Wld Indices ..... 25
Managed Funds ..... 30,31
Currencies & Money ..... 29
Share Information ..... 32,33
World Stock Markets ..... 28

**Surveys**
Investing in Cent/E Europe
Switzerland ..... Sep sections

**NEWS: EUROPE**

# Italy's centre-left forecasts senate win

By Robert Graham in Rome

The campaign for Italy's general election is entering its final week with the centre-left "Olive Tree" alliance confident of winning a majority at least in the senate.

Mr Massimo D'Alema, leader of the Party of the Democratic Left (PDS) and the dominant figure in the alliance, broke his customary reserve over the weekend and predicted winning the race for the senate. But he remained cautious about the outcome in the chamber of deputies in next Sunday's poll.

Different voting rules apply to the senate and chamber of deputies. In the senate only those aged 25 years and over can vote, while the voting age for the chamber begins at 18. In the 1994 general elections, the youth vote favoured the rightwing alliance headed by Mr Silvio Berlusconi with his newly formed Forza Italia movement. As a result Mr Berlusconi won a majority in the chamber but not in the senate, seriously limiting his ability to govern.

Publication of opinion polls is banned during the campaign. However, the centre-left has been careful to let it leak out that at least one private poll last week put them in the lead. This probably explained why Mr D'Alema chose to go public with his prediction on the senate.

But most commentators remain wary of opinion polls as they believe the result will be conditioned by the swings of as little as 1,000 votes in each of some 40 marginal seats in the chamber of deputies. The bulk of these seats are in the north, where there is a three-cornered fight between the two alliances and the populist Northern League of Mr Umberto Bossi.

The cautious optimism of the centre-left underlines the change of fortunes felt in what has been a lack-lustre campaign. After having trailed the rightwing alliance for the past three weeks, the "Olive Tree" has begun to seize the propaganda initiative.

Both Mr Berlusconi and his main ally Mr Gianfranco Fini, leader of the rightwing National Alliance (AN), have found themselves in difficulties trying to explain rash pledges on jobs and tax cuts.

The centre-left has also found a sensitive spot attacking Mr Berlusconi's plans to dismantle the welfare state.

Furthermore, the big set piece television debates have not been the easy victory expected by the Berlusconi camp.

Even though Mr Berlusconi is far more skilled at projecting himself on the public stage than Mr Romano Prodi, the leader of the centre-left alliance, the latter has begun to acquit himself well.

However, in the most important TV debate of the campaign last Friday, with the main politicians in each alliance ranged against each other, neither emerged a clear victor.

This would suggest that the outcome of Sunday's poll will be very close.

Until now Mr Berlusconi has managed to shake off damage to his image caused by him being currently on trial for alleged corruption.

But this week will see three separate court hearings directly related to instances of alleged corruption at his Fininvest business empire.

Events in court could yet add an element of surprise to the final stages of the campaign.

## EU players agree the obvious on Emu but expect more drama in Florence

# Verona stages a victory for all

The most striking part of the weekend meeting of European finance ministers and central bankers in Verona was not what was said but what was left unsaid.

In all their discussions about the future of European monetary union (Emu), no official ever publicly mentioned the possibility that the single currency project might be abandoned, or delayed beyond its planned 1999 start date.

Some might suggest that this silence simply reflected diplomatic good manners. But it also highlights the head of steam that is building up behind the Emu project.

As EU governments tackle one of the thorniest issues in Emu – how the currencies of countries which join Emu immediately will relate to the others – it is questions of detail, rather than political principle, which are providing the most bitter battleground.

On the face of it, the weekend's meeting yielded little that was nitty-gritty.

All 15 EU delegates agreed on the obvious – that monetary and economic stability between those inside and outside Emu would be crucial for the future single market.

Most also agreed that the "outs" should enter into a new exchange rate mechanism with the Euro to achieve this. In deference to the UK and Sweden's objections to entry, they acknowledged that a system could not be compulsory.

This near consensus was deemed sufficient to trigger a new wave of work to prepare for a new ERM. The European Monetary Institute (EMI) – the forerunner to a European central bank – will flesh out proposals about how the bank will oversee the ERM.

Meanwhile, it was agreed that the Commission would examine plans to create a fiscal stability pact for countries which join Emu, and ways of ensuring good behaviour from those which do not – while assuming that everyone will join Emu by 2002.

In the short term, these conclusions were sufficiently motley to allow most countries to claim some victory. Mr Kenneth Clarke, the UK chancellor, for example, declared that the UK had won a full endorsement of its right to remain outside any ERM.

Mr Jean Arthuis, French finance minister, trumpeted the agreement over the need for one. "Six months ago France was alone in calling for (the ERM). Then it was France and Germany. Now everyone agrees," he announced.

The Germans pointed out that their calls for a fiscal stability pact had been adopted by the Commission and EU members. Mr Theo Waigel, German finance minister, said: "I am very satisfied and positively surprised. That we have unanimity on the goals of the pact is a very positive signal for the markets."

The Italians and Spanish took comfort from the Commission's suggestion that all countries that fail to make the first wave of entry into ERM should join by 2002.

Indeed, with an eye to next Sunday's Italian elections, in which he is standing at the head of a new party, Mr Lamberto Dini, the Italian prime minister, said the lira had been "one of the most stable currencies on the foreign exchange markets" for six months.

But the wrangles now start over the details of the proposals being examined by the Commission and EMI, ahead of the formal conference of finance ministers planned for Florence this summer.

One set of particularly controversial proposals being examined by the Commission, for example, concerns two French ideas aimed at disciplining erring future "outs". These are that all EU funds should be paid in national currencies rather than Euros, and that countries which run excessive budget deficits should lose some structural funds. Another flashpoint concerns the Commission's proposals to discipline the "outs". This envisages that countries outside a single currency will pledge to pursue certain domestic policies if they fail to meet the convergence criteria.

The British – predictably – oppose losing any more control over their domestic fiscal and monetary policies. France, Belgium and Germany have all indicated a measure of support for the concept – primarily in the hope that it would provide another form of leverage over any country choosing to devalue.

A third potential sticking point is the Commission's plans to stop countries which join a single currency from running excessive budget deficits.

The Commission hopes to make the sanctions that exist in the Maastricht treaty against excessive deficits more transparent and effective, within a framework where countries all aim to get their budgets in balance in the long term.

For the moment, this idea appears to have persuaded Mr Waigel to drop his demand for a more stringent fiscal pact. Whether it will satisfy the Germans in the long term is unclear.

Meanwhile, the EMI's own work on the future role of the European central bank in any ERM will be sensitive.

The EMI broadly accepts German demands that the central bank should have the ultimate role in setting ERM bands, and the right to limit levels of intervention.

It also accepts that the bands should be flexible, allowing countries outside a single currency "with a good convergence record" the "possibility of further strengthening their links" with the central bank.

But the EMI admits that it is not yet sure how this flexible ERM should be defined – leaving plenty to play for until the next meeting in Florence this summer.

**Gillian Tett and Andrew Hill**

## Fuss about Euro cents was not worth a dime

**After the fuss over what to call the future *European single currency*, this weekend's decision on the naming of coins was rather a disappointment, writes Andrew Hill.**

**European Union finance ministers and central bankers agreed to divide the Euro into 100 parts and, at least provisionally, to call them cents.**

**Member states will be able to choose whose head to put on "their" side of the cent, and there will be a competition to design the European side. The design of the European face is likely to be restricted to "architectural" themes or some abstract expression of European "aims, ideas and visions". Inevitably, there are already rumblings of discontent about the detailed implementation of the informal agreement.**

**Mr Eddie George, governor of the Bank of England, said it was "not clear" whether cent or Euro-cent had been accepted as the official name of the coin. The Greeks were said to be worried that a common design might exclude their alphabet.**

**The French were quick to deny that the choice of cent represented a creeping Americanisation. "The 100th part [of a franc] is called a centime, and this is just an abbreviation," said the finance minister, Mr Jean Arthuis.**



EUROPEAN NEWS DIGEST

## US accused of paper dumping

European paper manufacturers are considering asking Brussels to investigate claims that US rivals have been "dumping" craft liner paper in the European market at unfairly low prices.

The Craft Institute, which represents European manufacturers of the paper material used to line corrugated boxes and packaging, claims US manufacturers have been selling excess supplies of craft liner in Italy and Spain at "ridiculously low" prices.

It said US companies were offering craft liner at prices as low as $350 per tonne, up to $150 per tonne less than prices offered by European manufacturers and "well below" the prices offered by the US companies at home. Pulp and paper prices have fallen sharply because of declining demand and overcapacity. *Patrick Harverson, London*

### Eta paid to free businessman

The longest kidnap by the Basque separatist group Eta ended yesterday when it freed Mr Jose Maria Aldaya, a Basque businessman, after 11 months in captivity.

It is understood that the family of Mr Aldaya, who ran a medium-sized road transport business based in the coastal town of Hondarribia, paid Eta a significant ransom. He was released before daybreak at a mountain pass some 60km from his home.

Mr Aldaya's kidnapping polarised opinion in the Basque country on the issue of Eta violence to an unprecedented extent, with protests against the terrorists and counter demonstrations by Eta supporters. Eta used Mr Aldaya's captivity to step up its extortion campaign against local businessmen and, by negotiating the terms of Mr Aldaya's release, the separatist group is now able to claim a considerable propaganda victory. It is reckoned that since the early 1980s Eta has earned more than Pta4bn ($32m) in ransoms from a string of kidnappings. *Tom Burns, Madrid*

### Survey detects economic gloom

Europe's entrepreneurs are becoming increasingly gloomy about the business outlook, according to the bi-annual survey of small and medium-sized businesses by the 3i European Enterprise Centre released today.

"A crisis of confidence in the economy and entrepreneurs' own business prospects may be just around the corner," it says. "The 'feelgood' factor seems to have dissipated and a degree of uncertainty has crept in once again."

Business confidence is dropping in all countries, with expectations about performance and investment particularly gloomy, says the survey of about 500 businesses (employing fewer than 500) in Germany, France, Britain, Spain and Italy.

German small businesses remain most pessimistic, with British companies least pessimistic. Most managers in France, Germany, Spain and Italy expect the commercial environment to get worse. Only in Britain is there a positive outlook, although confidence is falling. *Philip Gawith, London*

### Slovenian doctors end strike

The Slovenian government has signed a pay deal with the health workers' union to end a 23-day strike by doctors and dentists. The strikers are due to return to normal working today after refusing all but emergency operations.

The deal will also clear the way for restructuring of the health sector, which absorbed 7.3 per cent of GDP in 1994, though the government warned that the doctors' rise "could put pressure on other activities".

Last week, the government gave in to railway workers after a six-hour strike and agreed a four-year deal that will lift their basic wages by 5.7 per cent. *Gavin Gray, Zagreb*

هكذا من الأصل

هكذا من الاصل



# Aid for Bosnian Serbs tied to ousting of leaders

By Harriet Martin in Brussels

The US and European Union united at the weekend to underline western determination that little of the aid pledged to rebuild Bosnia would go to the Bosnian Serbs while their war leaders remained in office.

A pledging conference for reconstruction aid in Brussels on Saturday raised the remaining $1.2bn needed for this year's $1.8bn joint World Bank-EU programme. The EU pledged $260m, the US $219m, the World Bank $160m and Japan $130m.

Most of the money – especially the funds available immediately – is expected to go to projects in the Moslem-Croat Federation.

The Bosnian Serbs failed to attend the conference after they refused to be part of a joint Bosnian delegation. Donors repeatedly threatened to withhold aid from the self-styled Bosnian Serb "republic" until Mr Radovan Karadzic, the Bosnian Serb leader, and General Ratko Mladic, military commander, were sent to The Hague to face war crimes charges.

Mr Lawrence Summers, a US treasury under-secretary, said: "We all agree that it is imperative that they not remain in power. The big losers at this conference are the Bosnian Serb people."

Mr Hasan Muratovic, the Bosnian prime minister, told the conference his government would be even-handed between the communities over reconstruction aid.

But privately he has told diplomats he will not sign any World Bank loan benefiting the Bosnian Serbs until Mr Karadzic and Gen Mladic are handed over. Mr Carl Bildt, in overall charge of implementing the civilian part of the Dayton peace agreement, said: "The only money I intend to benefit Mr Karadzic personally is for his upkeep in The Hague."

The continuation in office of Mr Karadzic and Gen Mladic "cannot be tolerated for long", he said. "At a point, measures beyond those already announced will be taken."

Diplomats said they did not expect Mr Karadzic to remain in office for many more months, hinting that he would be removed with the help of Serbian President Slobodan Milosevic. But they also admitted that Belgrade had been unable to persuade the Bosnian Serbs to go to Brussels.


New face of Sarajevo: runners taking part yesterday in a 'race for freedom' run in the Bosnian capital and other European cities. Reuter

# Serb diehards fight Milosevic takeover

By Laura Silber in Belgrade

The refusal of Bosnian Serb leaders to attend the international donors' conference on post-war reconstruction in Bosnia suggested that hardliners, led by Mr Radovan Karadzic, were gaining the upper hand.

When the Dayton agreement was signed in December, Mr Karadzic, who had been indicted as a war criminal, was reeling. He seemed to have lost his political battle with President Slobodan Milosevic of Serbia.

Mr Milosevic began to install his placemen in the Bosnian Serb leadership. Mr Rajko Kasagic was appointed prime minister of the self-styled Serb "republic", Republika Srpska, which along with the Moslem-Croat Federation now comprises Bosnia.

From north-western Banja Luka, the biggest Serb town in Bosnia, Mr Kasagic was seen as more loyal to Belgrade than Pale, Mr Karadzic's stronghold. At the instruction of Mr Milosevic, Mr Kasagic has proved willing to co-operate with international mediators and even his Moslem and Croat foes.

He was promoted by Belgrade's state media as an alternative to Mr Karadzic while the Bosnian Serb leader kept a low profile. Under the Dayton accords, as an indicted war criminal, Mr Karadzic cannot hold office after elections in September.

In addition to backing Mr Kasagic, who is a member of Mr Karadzic's Serbian Democratic Party (SDS), the only party which wields power in Bosnian Serb areas, Mr Milosevic has tried to build his own Socialist party in Banja Luka. He wants the Socialists to win elections and eliminate his SDS rivals.

After four years of war, Bosnian Serbs no longer rally to Mr Karadzic. Yet they also feel betrayed by Mr Milosevic, whom they once saw as the leader of all Serbs.

The political campaign has not started. But hardliners insist Mr Milosevic will continue to cede the land Serbs died fighting for, as he did in Dayton. Mr Milosevic is expected to orchestrate attacks on Mr Karadzic and his SDS for corruption and war-profiteering.

Mr Milosevic has called the elections in Bosnia the most important event of the year. He stresses the need for an "independent media" in Bosnia, guaranteed under the Dayton accord, while tightly controlling the press at home in Serbia.

Afraid that Mr Kasagic was becoming too powerful, Mr Karadzic this month tried to oust him. But he abandoned the attempt after the extent of Mr Kasagic's support within the Banja Luka SDS and local business became clear.

But he curbed Mr Kasagic's power by declaring that negotiations could only be conducted with a green light from himself. The decision to boycott the aid conference came a few days later. Mr Kasagic reversed his earlier decision to participate as part of a unified Bosnian delegation.

The conflict between Mr Milosevic and Mr Karadzic reflects divisions which run deep. Rising to power, Mr Milosevic fused Serbian Socialism and nationalism, attracting broad support. But after abandoning the Bosnian Serbs and nationalism, he has again donned his old mantle of Socialism.

Behind the scenes the two men are playing their rivals off against each other. Mr Karadzic has approached the Croats to make a deal at the expense of the Moslems. While Mr Milosevic last month secretly despatched two Bosnian Serbs to Sarajevo in an attempt to mend fences with the Moslems.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.


# Report says EU's tariffs no longer cost effective

By Guy de Jonquières

The economic costs to the European Union of collecting customs duties on imports almost equal the value of the revenue raised and are likely to exceed it by the year 2000, according to the Federation of Swedish Industries.

As well as providing diminishing financial returns, customs duties impose an unnecessary burden on European industry and handicap its international competitiveness, it says. The federation urges the EU to eliminate tariffs on industrial goods. It says further tariff cuts, and simplification of customs procedures, should be high on the agenda of the World Trade Organisation's ministerial meeting in Singapore in December.

The EU's 15 members imported goods from non-member countries worth Ecu475bn ($600bn) in 1994, the federation says in a *report. Revenue from EU customs duties that year totalled Ecu11.2bn. The federation says that, on a conservative estimate, the costs of customs procedures amounted to at least 2 per cent of total imports.

The EU is committed under the Uruguay Round to cut its average tariffs on industrial goods to below 4 per cent by the year 2000. On the basis of 1994 import levels, the cuts would reduce customs revenue to Ecu7.7bn, while the costs of collecting would remain unchanged.

**The Price of Protection. Federation of Swedish Industries, Box 5501, S-11485 Stockholm. Tel: 468-783 8000*

# Düsseldorf airport fire blunders

By [illegible] in Frankfurt and [illegible]

Aircraft began using Düsseldorf airport again at the weekend after last Thursday's fire which killed 16 people.

Fire experts said the disaster could have been prevented or minimised with better safety precautions and equipment. Airport officials admitted failures and delays in preventing and dealing with the fire at what is Germany's main charter airport.

Poisonous fumes swept through the airport after welding sparks started the fire which quickly set alight plastic cable insulation. The fire caused at least DM100m ($67m) worth of damage.

As more details about the disaster emerged, there was dismay in a country priding itself on high safety standards. It emerged that the wrong evacuation message had been broadcast during the fire, possibly increasing casualties. A recorded announcement instructed passengers to go down to the arrivals floor, where the blaze was raging.

Mr Jürg Bickenbach, chairman of the airport's supervisory board, said the message broadcast during the fire was the one normally used to evacuate the airport when it had to be closed down. He said it may have been activated by damaged cables.

The Düsseldorf city fire service was not informed of the blaze until 27 minutes after airport firefighters knew about it, and it took a further eight minutes before the first city fire appliance arrived. The Düsseldorf terminal area was not sealed off until 53 minutes after first reports of the fire. Although the 25-year-old building was certified as having "optimal fire prevention precautions" only two months ago, the fire service said there were no sprinkler devices in the arrivals hall.

Safety at German airports is the responsibility of the federal states. Mr Franz-Josef Kniola, the interior minister of North Rhine-Westphalia, said the authorities would investigate whether there was a need to improve safety precautions. In particular, the role of cable ducts in spreading the fire needed to be investigated.

The authorities in Düsseldorf said they were investigating whether to charge the company which had the contract for the welding with manslaughter and arson through neglect. Airport fire service officials said they had not been told in advance of the welding work.

Court ruling may delay President Cardoso's drive

# Setback for reform campaign in Brazil

By Angus Foster in São Paulo

Brazil's President Fernando Henrique Cardoso has suffered another setback to his economic reforms. A supreme court judge has ruled that changes to the social security system passed by the lower house of Congress last month may have been voted unconstitutionally.

The ruling, which will be reviewed by the full supreme court, could lead to serious delays in approving the social security reform and hold up other budget changes Mr Cardoso wanted voted on this year.

Delays would put pressure on the government's accounts since the reforms are partly designed to reduce central and state government spending commitments.

Mr Marco Aurélio Mello, a supreme court judge with a record of controversial rulings, granted an injunction against the social security reform on Friday night.

A full sitting of the supreme court could take anything from a few weeks to months to arrange, depending on how the government treats the case.

The government-backed social security reform was originally defeated in the lower house at the beginning of March, before the government quickly introduced a new, watered-down version.

The judge said the new version introduced provisions which had not been subjected to proper Congressional scrutiny. He also said that, according to the constitution, defeated bills could not be reintroduced into the same Congressional session.

Confusion around Brazil's constitution, a complex and poorly drafted document, is common and Mr Cardoso could yet get his reforms back on track. But the latest hiccup is embarrassing and will at least use up more valuable time.

Many congressmen intend to run for October's municipal elections and will be absent from the capital campaigning in the second half of the year. Most analysts think Mr Cardoso has until June to push his reform proposals through Congress. But he has made very poor progress this year, reflecting the weakness of his ruling coalition and the unpopularity of some changes.

Mr Cardoso's decision last week to raise the question of his re-election is also likely to complicate approving the reforms. Presidents can serve only one four-year term but Mr Cardoso let it be known he wants the constitution changed so he can run again in 1998's presidential elections.

Some analysts saw the re-election bid as premature since politicians wanting to block Mr Cardoso's candidature will now also work to block his economic reforms.

The government's budget, which this year is expected to show a deficit of 3 per cent of gross domestic product after adjusting for interest payments and inflation, is not at breaking point. However, continued delays to the economic reforms forces the government to keep interest rates very high and raises the risk of serious budget problems in future.

# Boost for Mbeki as Ramaphosa quits

By Roger Matthews in Johannesburg

Mr Cyril Ramaphosa, secretary-general of the African National Congress, the dominant party in South Africa's coalition government, is to resign from parliament to assist black-owned business gain a bigger economic stake.

Mr Ramaphosa, who is also head of the constitutional assembly, is to join New Africa Investments Limited (Nail), which is expected shortly to bid for the 48 per cent stake in Johnnies Industrial Corp (Johnnic), an industrial and media group, being offered by Anglo American Corp.

The departure of Mr Ramaphosa from parliament will further strengthen the hand of Mr Thabo Mbeki, the deputy president, as probable successor to President Nelson Mandela in 1999.

A recent cabinet reshuffle increased Mr Mbeki's grip on government and his influence over economic policy. Mr Ramaphosa, seen within the ANC as the only candidate who might credibly challenge Mr Mbeki for the leadership, was not offered a senior cabinet post even though his work at the constitutional assembly should end in the next few weeks.

President Mandela said at the weekend that Mr Ramaphosa's new role was critical in narrowing the vast gap between large, white-owned conglomerates and the mainly small and medium-sized enterprises which represent black business interests. Mr Ramaphosa conceded he had no business experience, but believed his negotiating skills would be important.

"I have been involved in the business of politics, and now have the chance of getting involved in the politics of business," he said. "If black economic empowerment does not become a reality, the successful transition and democracy will be in jeopardy. Then everyone loses, including white business."

Dr Nthato Motlana, a former Soweto doctor and chairman of Nail, yesterday said a bid by a black consortium for control of Johnnic would be lodged with Anglo this week. Anglo has been looking for a potential buyer for two years, but stressed the sale had to make a real contribution to the development of black business.

"By the end of the week there will be a joint bid by all the black groups," Dr Motlana said. "Because it is a R10bn ($2.4bn) company, no one black group can really make a dent on those assets." He said foreign banks might be involved, but all the money would be raised locally. The Congress of South African Trade Unions and other union federations are believed to be involved in the bid.

Dr Motlana added that Johnnic's involvement in the media was a key element in the forthcoming bid. Its publishing interests, via the Omni Media subsidiary, include several daily newspapers and weekly magazines.

Mr Ramaphosa and other ANC leaders have often complained about unfair or biased reporting since the April 1994 general election. The ANC has been studying for some time other options for getting its message across, including launching its own newspaper or having a dedicated programme on national television and radio.

# Corporate novice brings fresh impetus

**Mark Ashurst** on a new player in the fight for black economic empowerment

Mr Cyril Ramaphosa's appointment as a deputy executive chairman of New Africa Investments Limited is a coup for South Africa's largest black-controlled business.

And it will make waves in Anglo American Corp, the white-owned conglomerate which dominates the local economy. Mr Ramaphosa, who will quit parliament next month, will lead Nail's bid for control of Johnnies Industrial Corp, the property and industrial holdings group which Anglo intends selling to black investors.

If he succeeds, the ANC secretary-general will take over a portfolio of blue chip companies which includes South African Breweries (13.8 per cent), Premier, the retail and consumer goods group (27.4 per cent), Omni Media, a media group with extensive newspaper holdings (43.2 per cent), and Toyota South Africa (16.4 per cent).

The unbundling of Johnnic is the most expensive and complex in South Africa's short history of black economic empowerment. At Friday's closing price of R53.50, Anglo's stake in Johnnic is worth about R4bn ($972m). A complete transfer of its assets would increase black control of South Africa's listed companies from its current level of 0.6 per cent of the total capitalisation of the Johannesburg Stock Exchange to almost 1 per cent.

Although Anglo is prepared to stagger the sale in tranches of at least R1bn, Johnnic's price tag precludes a quick settlement. "This is not charity and it is not a get-rich-quick scheme. We are looking for a commercial transaction and we want buyers who will be long-term players in these industries," says Mr Michael Spicer, Anglo's public affairs

Nelson Mandela (left) announces at the weekend Cyril Ramaphosa's resignation from parliament

director. Anglo has made little progress in its search for a suitable black buyer since putting its 48 per cent stake in both Johnnic and JCI Ltd, the mining house, up for sale on the eve of the election in March 1994.

The delay speaks volumes about the obstacles facing black investors in the post-apartheid era, and the changing priorities of both white and black business in the more sober political climate of 1996.

Two consortiums have emerged in the bidding: one led by Nail and the other a broad-based grouping of black business and trade unions known as the National Empowerment Consortium (NEC). Both are unanimous in rejecting recent reports that a deal is imminent: "We are considering all options. But at this stage there is nothing much to tell," says Mr Jonty Sandler, Nail's chief executive.

Anglo's refusal to countenance the substantial discounting that has been a feature of previous equity transfers to black groups has surprised some investment banks eager to finance cut-price acquisitions by black consortia, although there is no shortage of would-be creditors.

"There has been a lot of interest. Generally the financing is ready to go," notes Ms Beth Mandell, a director at Morgan Stanley in Johannesburg.

But cash is not enough. The decision to unbundle Johnnic, though consistent with Anglo's long-term objectives of focusing on its core mining businesses, was a politically motivated move to broaden economic control in the aftermath of apartheid. Potential buyers need more than a viable financing plan: they must also demonstrate a political credibility that will reflect well on Anglo.

The NEC consortium scores highly on this count. Led by former South African Development Bank chairman Mr Wiseman Nkuhlu, it embraces eight trade unions, the two largest black business lobby groups and an array of prominent black investors.

Both consortia are believed to have sought support from overseas investors, particularly in the US, while Nail has also been in talks with Bidvest, the white-owned industrial and consumer goods group, on the prospect of a joint bid.

Its recruitment of Mr Ramaphosa – a founder of the National Union of Mineworkers who in 1987 led 340 000 miners into a prolonged strike that became a watershed in the anti-apartheid struggle – gives an important boost to its political credentials. In 1994 he was second only to Mr Nelson Mandela on the ANC's national list of parliamentary candidates.

The first test of his political muscle will be his ability to reconcile disparate interests within Nail's consortium. Raising capital on the scale required to buy Johnnic has resulted in alliances that are inherently unwieldy. Although details of Nail's bid have not been disclosed, capital sourced from trade unions' pension funds is crucial to the bids of both consortia.

Last year NEC unveiled a draft offer of R2bn for 34.9 per cent of Johnnic – just below the 35 per cent level which requires Anglo to consult other shareholders. Of this, about R1bn was sourced from union pension funds, granting the unions 30 per cent of voting rights: black business had pledged another R400m, while the balance would be "warehoused" by Anglo for payment at a later stage.

In the longer term, however, the objectives of black business leaders seeking control of their investments may diverge from those of trade union groups attracted by the prospect of board level representation in labour-intensive industries. Some investors are also reported to have a stake in both consortia, and it is likely that a successful bid will combine the interests of the rival groups.

"This kind of transaction was never going to be tied up overnight," observes Mr Spicer. But after two years of stalemate, Mr Ramaphosa will bring new impetus to the process.

A newcomer to the world of corporate finance, his appointment calls into question the view of most analysts that the Johnnic unbundling will not avert criticism of South Africa's biggest conglomerates from the top ranks of the ANC. Having bowed out of the race for the post-Mandela presidency, Mr Ramaphosa is seeking a new victory in the battle for black economic empowerment.

# Iata rejects demand on right to sue in US court

By Michael Skapinker, Aerospace Correspondent

The International Air Transport Association has rejected a US demand that Americans flying on foreign airlines between two non-US cities be given the right to sue in US courts if the aircraft crashes.

Washington had said that unless its citizens were given an automatic right to sue in their home courts, US carriers would be reluctant to sign a new inter-airline agreement lifting compensation limits for air crash victims and their families.

Iata has told the US that foreign airlines will not accept their demand. Instead, the association is proposing an alternative system of arbitration, under which accident victims barred from suing in their own courts can have their damages decided by experts from their own countries.

In spite of the rebuff from Iata, several US carriers are believed to be ready to put their names to the agreement, which has so far been signed by 29 airlines from other parts of the world.

The inter-airline agreement is an attempt to update the 67-year old Warsaw Convention, under which passengers injured in accidents or the relatives of those killed can find themselves receiving compensation of as little as $10,000.

Some countries have taken unilateral action to raise compensation limits.

The new agreement is an attempt to standardise airline practice around the world. Airlines which sign the accord undertake either to lift the limit entirely or to pay the level of damages that would be awarded in the passenger's home country.

The agreement does not, however, change the Warsaw Convention rules on where crash victims can sue. They can bring their actions in the country in which the ticket was bought, where the airline has its principal place of business or in the country to which they were travelling.

This means that an American who buys a ticket in one Asian city to fly on a non-US airline to another Asian city cannot sue in the US if the aircraft crashes – although he can ask the Asian court for the level of damages he would have received in the US.

Under Iata's alternative proposal, panels of experts would be set up for each of the world's main geographical regions. Instead of going to court abroad, US citizens, for example, could ask for their damages to be assessed by experts from the North American panel.

Business Travel, Page 12



# Argentina banks on 'vice-led recovery'

By David Pilling in Buenos Aires

Duties on whisky, cigarettes and cola will be cut by up to 80 per cent from today in an effort to breathe life into Argentina's flagging economy.

Lowering duties on several items will cost the treasury an estimated $200m in lost revenue this year, but could prompt a "vice-led recovery". Mr Domingo Cavallo, the economy minister, is confident lower prices will persuade the public to drink, smoke and consume more, cancelling out any revenue shortfall and perhaps even boosting the final tax take.

Duty on whisky will be cut from 38 per cent to 12 per cent, while that on brandy, gin, vodka and other strong alcoholic beverages will drop by a third. Mr Cavallo said he believed tax reductions would be passed on to consumers in the form of lower prices.

Smokers will be less fortunate than whisky drinkers, with duties on cigarettes set to fall by a mere 2 points to 60 per cent. Cola drinkers will be among the luckiest: prices should drop 10-12 per cent following a slashing of duties by more than 80 per cent.

Carpets and toiletry items, often traded on the black market, will see all duties eliminated from today in an effort to encourage legal transactions and reduce tax evasion.

Mr Cavallo, under pressure to kick-start the stagnant economy, said cuts in duty would have "an expansionary effect on sales", although he admitted this might take some months. The economy, battered by the shockwaves of Mexico's devaluation in December 1994, contracted 4.4 per cent in 1995, and has exhibited few signs of recovery this year.

Mr Cavallo is betting on growth in gross domestic product of 5 per cent in 1996 in order to meet fiscal targets agreed with the IMF.

# Cash dispute hits Nigerian oil industry

By Paul Adams in Lagos

The Nigerian government is in dispute with its multinational oil partners over funding for new developments and field maintenance.

A shortfall in funding by the state-owned Nigerian National Petroleum Corporation (NNPC) – a majority partner in the country's six oil-producing joint ventures – threatens to disrupt payment to contractors and reduce the 2m barrels a day output of Africa's largest producer, warn the foreign partners which operate the fields around the Niger delta.

The government's 1996 budget has cut NNPC's recommended total for the dollar portion of its costs (covering offshore expenses) from $2.2bn to $1.7bn.

For the naira portion, covering local salaries and payments to local contractors, the government has approved only N20bn ($244m), less than half the amount requested by NNPC.

As a consequence, NNPC's naira's arrears have shot up from N13bn at the end of last year to N19bn at the end of March and could exceed N60bn by the end of the year.

"There is a power struggle between the finance ministry and NNPC," says a western oil company executive in Lagos.

"Finance are trying to cut NNPC out of the negotiations. There is no parallel between payments so far this year and the actual funds we require month by month."

The cash crisis makes the government's target of raising production and proven reserves by 25 per cent by 2000 look unattainable.

The industry's cash crisis is a perennial problem for the six foreign operators: Shell, the main producer; the US majors Chevron and Mobil, which are both expanding capacity; and three smaller operators Elf Aquitaine, Agip and Texaco.

By 1994 NNPC's arrears had reached $1bn, operations were scaled down and Nigeria's output fell below its Opec quota.

The problem was partially solved last year when the finance minister, Mr Anthony Ani, increased payments to reflect NNPC's share of operating costs and substantially reduced its arrears to the operators from about $800m to $300m.

The shortfall creates a dilemma for the operators. "The local money market cannot provide us with the amount of naira we need", says one operator.

"It is an untenable situation forcing the industry to spend more in dollars offshore while the government is complaining that we do not invest enough in the local economy."

Some costs cannot be cut.

Shell, which produces half of Nigeria's oil, in the face of severe criticism over its environmental record in Nigeria, is committed to replacing 12,000 km of ageing pipeline, which will take another four years and last year alone cost $300m. If it cuts back instead on drilling new wells, production capacity will decline over the next two years as existing wells dry up.

This will reduce revenue for both foreign partner and government.

**NNPC's shortfall**

| 82 naira= $1 | $* portion | | Naira** portion |
|---|---|---|---|
| Funding recommended by NNPC | 2.2bn | + | 48bn |
| 1996 provision by Finance Ministry | 1.7bn | + | 20bn |
| Estimated shortfall | 0.5bn | + | 32bn |

* Covering offshore costs
** Local salaries and local contractors

Source: industry estimates

Football's governing body accused over handling of marketing and TV talks

# Fifa faces row over World Cup contracts

By Jimmy Burns in Zurich

Fifa, world football's governing body, is facing a dispute over its handling of negotiations for future World Cup marketing and television contracts estimated to be worth at least $1bn.

Team, the Lucerne-based marketing arm for the commercially successful Champions League run by Uefa, Fifa's counterpart in Europe, has protested to Fifa, alleging it is being denied the opportunity to make a bid for the contracts.

The claim is likely to worsen relations between Mr Joao Havelange and Mr Lennart Johansson, the presidents respectively of Fifa and Uefa, who are battling over Fifa's leadership.

Mr Klaus Hempel, Team's managing director, has written to Mr Havelange and other senior Fifa officials alleging that their intention is to continue "under any circumstances" Fifa's relationship with its long-term marketing agent, ISL, also based in Lucerne.

In a letter sent to all members of Fifa's executive committee, Mr Hempel claims Team is being deliberately excluded from any serious discussion about the contracts, in contravention of Fifa's public assurance last month that it was open to offers from other parties.

Mr Hempel said this week: "We have serious doubts whether Fifa is interested in a fair selection procedure. It seems to us that the current decision-making process will not necessarily result in the most beneficial outcome for Fifa and world football."

ISL has a 12-year marketing contract with Fifa that expires after the next World Cup, to be held in France in 1998. Its option on exclusive negotiating rights with Fifa expired on February 29.

Fifa has come under increasing pressure from Uefa and Asian football authorities to boost television and marketing income from the World Cup by opening up the bidding for rights.

Mr Johansson, who will challenge Mr Havelange when he stands for re-election in 1998, has claimed that Fifa, by locking itself into a long-term agreement with ISL, has been unable to take advantage of the growing market value of broadcast and sponsorship rights. Mr Joseph Blatter, Fifa's general secretary, said he was "not in a hurry" to decide whether his organisation should continue its relationship with ISL.

"I can guarantee that there will be an open, transparent and clear-cut bidding process," he said. He added that future marketing and TV contracts would include the 2002 and 2006 World Cups.

Fifa's TV rights with a global consortium of public broadcasters covered the last two World Cups and are due to expire after the 1998 competition.

Other groups which are thought to have expressed an interest in bidding for future World Cup contracts include Mr Rupert Murdoch's Fox network.

Last year it emerged that International Management Group, the sports management company, headed by Mr Mark McCormack, and a subsidiary of Bertelsmann, the German publisher, were also prepared to make a provisional offer of $1bn for TV and marketing rights for the 2002 World Cup.

Mr Chung Mong-Joon, a member of Fifa's executive committee who is leading South Korea's bid for the 2002 World Cup, recently estimated that marketing and TV rights for the event were worth $2bn.

In a thinly veiled attack on the Fifa/ISL partnership, Mr Chung criticised long-term marketing and TV contracts "handled by very few people behind closed doors".

ISL refused to comment this week on its current relationship with Fifa. But it is thought to see a continuation of the partnership as critical to its future.

Last month the Financial Times reported that the International Olympic Committee had ended its 13-year relationship with ISL.

The IOC is planning to do much of the sale of sponsorship and broadcast rights itself.

هكذا من الأصل

NEWS: ASIA-PACIFIC

# US, Japan set to strengthen security ties

By William Dawkins in Tokyo and Nancy Dunne in Washington

The leaders of the world's two largest economies meet in Tokyo this week to strengthen ties and put trade disputes into the background, in what US officials say is the most important US-Japan summit in 20 years.

President Bill Clinton and prime minister Ryutaro Hashimoto – at a carefully orchestrated meeting on Wednesday – are expected to agree on practical steps by Japan to increase its contribution to the 47,000-strong US force based there, the mainstay of the 100,000 US troops underpinning security in East Asia.

Mr Clinton will also confirm measures to reduce the intrusiveness of US bases in the southern Japanese island of Okinawa, where already-sensitive local feelings were inflamed by the rape of a schoolgirl last year.

He is scheduled to reaffirm their post-war security agreement with a symbolic declaration on the deck of the US aircraft carrier Independence.

The carrier was recently on duty monitoring Chinese missile tests near Taiwan, one source of regional tensions contributing to their desire for renewal of the old friendship between Washington and Tokyo.

The ground has been well prepared over the past week for what Japanese officials says will be a "feel good" meeting.

On Friday, the US announced that it would return an airbase on Okinawa to local landowners, a gesture calculated to assuage local feeling.

Earlier in the week, Japan revealed it would for the first time supply weapons parts and services to US forces in joint peacetime exercises and on UN peacekeeping duty.

That move was an attempt to avoid any US criticism that Japan could do more, even within its pacifist constitution, to help the US troops providing the islands' defence. Tokyo already contributes $5.5bn a year to their upkeep.

The reaffirmation of security ties is a consequence of both sides' first review, in the past year, of Asian defence strategy since the end of the cold war.

Japanese leaders in the first few years after the collapse of the Soviet Union felt secure enough to take a tougher line on trade with the US, but the mood has since changed.

Both sides' new security reviews conclude that regional tensions in Asian are still a threat. The stabilising presence of US troops is needed, given that neither Japan nor any of its neighbours wants Japan to re-arm.

The recent outbreak of tension between China and Taiwan, and North Korean incursions on the border with the south have sharpened the need for a strong US-Japan security alliance.

One concern, however is whether China will feel isolated by the fresh US-Japan rapprochement this week. Mr Qian Qichen, the Chinese foreign minister, warned his hosts on a visit to Tokyo early this month he hoped the summit would not bring "new problems" for China.

On the economic front, the US signalled benign intentions with a report on Friday welcoming a 35 per cent rise in US car sales to Japan since last August's agreement on car imports. Then, Washington had threatened economic sanctions over Japan's refusal to give way to US demands for a numerical market share target.

US trade officials are happy with a 34 per cent rise in exports of all goods to Japan over the past three years, within which exports in sectors covered by trade deals with Japan have risen by 85 per cent.

Ford's acquisition of control of Mazda, the ailing Japanese car producer, on the same day is an example of how Japan is happy, at least temporarily, to reciprocate.

But several unresolved trade disputes remain – over foreign access to Japan's markets for semiconductors, insurance and photographic film.

US trade officials see scope for compromise on semiconductors, where Japan is refusing to renew a pact reserving 20 per cent of its market for foreign products, due to expire in July. That optimism is not, however, shared by Japanese trade officials.

ASIA-PACIFIC NEWS DIGEST

## Accord reached in Irian Jaya

Freeport Indonesia, the Indonesian subsidiary of the US mining company Freeport McMoRan Copper and Gold, has agreed to allocate 1 per cent of its annual gross revenues to local communities living near the company's Grasberg mine in Irian Jaya. An official familiar with the negotiations said Freeport would donate about $15m a year to community projects.

The move, one of a series of concessions, is to ease tensions in the region after local tribes living in and around the mine rioted last month. Freeport also agreed to quadruple the number of its Irianese employees over the next 10 years. At present only about 2,000 of the mine's 16,000 employees are Irianese.

Mr James Moffet, the New Orleans-based chairman of Freeport, which operates the Grasberg mine under a contract with the central Indonesian government, met President Suharto last week and Irian Jaya tribe leaders over the weekend. *Manuela Saragosa, Jakarta*

## China plays down WTO entry

China will devote greater efforts to enhancing the Asia-Pacific Economic Co-operation forum at the expense of its attempts to gain entry to the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade. China Trade News, reflecting recent trenchant criticism of perceived US obstruction, said Beijing was "temporarily cooling" efforts to secure WTO entry. "Because the US created all sorts of obstacles, hopes of China rejoining the WTO before the end of 1995 became a bubble," the newspaper said.

A western official in Beijing said the China Trade News commentary was in line with the "general demonising of the Americans at present". He said China appeared to have decided in any case to slow its drive to enter the WTO for domestic political and economic reasons. *Tony Walker, Beijing*

## War games hit Taipei reserves

Taiwan's foreign exchange reserves, hurt by Beijing's recent military exercises, fell below US$90bn at the end of March, the official Taiwanese central news agency said yesterday. The agency quoted a central bank official as saying the bank intervened heavily to support the Taiwan dollar in March as China held war games and missile tests in the Taiwan Strait in the run-up to Taiwan's presidential election.

The menacing war games triggered waves of US dollar buying and the central bank sold about US$5bn in the foreign exchange market to keep the Taiwan dollar rate at about T$27.5 to the dollar. The central bank has said the island's foreign exchange reserves rose above $90bn at the end of February from $89.56bn at the end of January. *Reuter, Taipei*

## Queensland warns on zinc mine

The new conservative government in Australia's northern state of Queensland said yesterday it might bring in laws to force the go-ahead of a stalled US$790m zinc project in the face of aboriginal objections. Mr Rob Borbidge, state premier, said the future of the proposed Century Zinc mine was in doubt after a group of Aboriginal representatives walked out of a meeting he had convened over their concerns over the RTZ development.

Mr Borbidge said the current native title legislation on land rights for Aborigines was a farce, and changes were needed if negotiations between local Aborigines and mining companies failed. *Reuter, Cairns*

# Lahore hospital blast kills five

By Farhan Bokhari in Islamabad

Mr Imran Khan, Pakistan's former sporting hero, declared he would not "turn back" from pursuing his social aims after yesterday's bomb attack at the hospital in Lahore built by his fund-raising efforts.

At least five people were killed and another 30 injured by the powerful bomb blast at Pakistan's most famous cancer hospital. The bomb was placed in the outpatient department of the Shaukat Khanum memorial hospital, during the mid-day rush of patients. Mr Khan had built the hospital in memory of his mother, who died of cancer.

Mr Khan said the blast was intended to frighten him away from pursuing his social welfare aims, but declined to say who might be responsible.

"I want to tell those who want to scare me that neither will I be scared nor will I turn back. I will move forward with greater determination."

Ms Benazir Bhutto, the Pakistani prime minister, accused unnamed terrorists for the bombing and said they would not be spared. The Punjab provincial government ordered its police to submit a report today to the governor.

The blast occurred a day after local newspapers reported that Mr Khan was consulting with close aides formally to launch a new political party to provide alternative leadership to the ruling Pakistan People's party and the opposition Pakistan Moslem League.

Many Pakistanis believe Mr Khan wants to become a politician and challenge the country's mainstream leaders.

Mr Khan, who led Pakistan to victory in the 1992 cricket world cup, has devoted his life to the hospital since retiring from cricket two years ago. During that time he has criticised the country's elite for emulating western traditions.

But his marriage last year to Ms Jemima Goldsmith, the daughter and heiress of British financier Sir James Goldsmith, caused a furore in Pakistan, where critics accused Mr Khan of double standards.

Mr Khan's supporters have accused Ms Bhutto's government of discouraging his work by barring him from national television for fund-raising. Despite his stature as one of the greatest cricketers of his era, Mr Khan did not make any appearances on national television during this year's world cup.

# Embarrassing exit for pollsters

SOUTH KOREA

By John Burton

This year's award for the world's most inaccurate opinion poll must go to one sponsored by South Korea's broadcast organisations for elections held here last week.

As voting ended on Thursday, TV networks announced the results of a joint exit poll predicting that the government would score a surprise victory by gaining a solid parliamentary majority, with 175 of the 299 National Assembly seats.

Oops! Instead of winning parliamentary control, the government lost it, getting only 139 seats. The poll's "margin of error" of 4.3 per cent turned out to be 20 per cent.

Korean newspapers were quick to take their electronic brethren to task. "Broadcasters have lost the public's confidence," declared *Dong-ah Ilbo*, the daily paper with the second highest circulation. The opposition-leaning daily *Kookmin Ilbo* criticised the $2m poll for its "unprofessionalism".

The Washington correspondent for Korea's biggest daily newspaper, *Chosun Ilbo*, wrote that the poll was "shameful" to Korea's image abroad as it had misled the respected and powerful US media in their initial reports on the election results.

Although the journalists avoid saying so, the embarrassing fiasco reflected state meddling in the media and occurred amid opposition allegations that the government was trying to manipulate news broadcasts for political purposes.

The state-run *Korea Broadcasting System* led its evening newscast for the last week of the election campaign with reports of North Korean military threats following Pyongyang's decision not to observe the 1953 armistice that ended the Korean war.

INTERNATIONAL PRESS REVIEW

Analysts believe the dramatic reports on the country's highest-rated news programme persuaded a large bloc of undecided voters to support the ruling party, which avoided suffering an expected severe beating at the polls.

By contrast, *Munhwa Broadcasting Company*, Korea's second largest TV network, played down the security fears after its reporters ended a 24-day strike to protest against alleged government interference in its news coverage.

MBC has also clashed with the government over election polls and last week's disastrous survey amounts to sweet revenge. MBC has been locked in fierce competition against KBS, with MBC playing maverick to the conservative and high-handed image of KBS.

One of MBC's biggest coups occurred a year ago. With published opinion surveys legally banned during election campaigns, MBC had the bright idea of secretly conducting the nation's first exit poll during local elections last summer. It surprised the competition on election night when it released the results of that poll, which were highly accurate.

The government and KBS were not pleased. They coerced MBC and two smaller broadcasters to agree to conduct a joint exit poll for the general election in an effort to avoid "excessive competition" in the coverage of results.

Moreover, the government decreed the exit poll should be conducted by telephone instead of interviewing persons as they left polling stations since the election law banned such interviews within 500 metres of voting booths.

A KBS official was put in charge of the joint exit poll, which involved five polling organisations. But MBC had doubts about accuracy of the polls when tracking surveys a week before the election produced unexpectedly lopsided results for the government.

MBC decided to conduct an independent exit poll on election day through interviews at voting stations. But its activity was quickly stopped when the government and other broadcasters protested. MBC was forced to apologise for breaking its agreement with them.

Nonetheless, MBC apparently gained enough data from its own aborted exit polls to be first to predict the outcome of the election once the officially sanctioned survey was abandoned by the networks as it became clear it was wrong.

There were two main reasons for the polling disaster. One was that those interviewed by telephone were selected on a random basis that resulted in an unrepresentative sample of voters.

Another was that many of them lied to pollsters. This reflects the legacy of Korea's former military dictatorship, when opposition supporters did not publicly express their political beliefs to strangers.

Meanwhile, KBS is claiming it is not at fault. In a weekend broadcast, it explained it wanted to conduct exit polls at voting stations but had been blocked by the government. It said it would lobby for amending the election law to allow normal exit polls, thereby endorsing the position of its arch-rival, MBC.



مكتبة من الأصل

# VAT avoidance alarms government

By Gillian Tett and Jim Kelly in London

Tax planning and avoidance by UK companies appear to be threatening Conservatives' hopes of unveiling large tax cuts before the general election.

Government officials suspect that recent growth in the avoidance of value added tax by businesses is a big factor behind the overshoot in government borrowing.

Mr Kenneth Clarke, the chancellor, is under mounting pressure from Conservative backbenchers to slash taxes in a bid to stave off election defeat.

However, the City of London expects that official figures this week will reveal that government borrowing was over £3bn ($4.56bn) higher in 1995-96 than the Treasury forecast last November, and £11bn above its estimate 18 months ago.

The main reason for this was a shortfall in tax receipts, particularly value added tax, which is likely to have yielded almost £7bn less last year than the Treasury was anticipating 18 months ago.

The Treasury and Customs and Excise departments say they are baffled by the shortfall, and have launched a joint study to try and solve the mystery. Their study is not due to reach firm conclusions until the summer. But there are growing suspicions among government officials and accountants that a crucial factor in the shortfall is rising VAT avoidance by companies.

Hard data on tax avoidance do not exist, but the level of avoidance appears to have grown rapidly since the early 1990s – particularly among large corporations. Tax avoidance is not illegal. Most companies call it "tax mitigation" or "efficient tax planning".

One corporate tax manager said: "It is our job to pay as little tax as possible and as late as possible, and most companies now take outside advice to do it. Despite the rhetoric, tax has not got more simple – it's more specialised."

Another said: "Customs and Excise do muck about a bit – they still seem to think they are looking for smugglers – and if they can do it, why can't we?"

The Big Six accountancy firms in the UK, which are thought to enjoy more than 70 per cent of the corporate tax advice market, have rapidly expanded their indirect tax practices in recent years.

They report a sharp increase in inquiries from companies wanting to minimise VAT bills through legal loopholes. Opportunities for avoidance and tax planning have mushroomed with the growing complexity of corporate structures and cross-border business.

Revenue from VAT advice now accounts for up to 15 per cent of the big six accountants' tax advice revenue – sharply higher than a decade ago – and accountants expect the growth to continue. Fees from VAT work for the Big Six alone are worth up to £100m a year.

Although accountants are secretive about how much money they can save companies, one leading tax partner remarked: "We wouldn't make any promises with clients, but I'd be pretty sure we could cover our fees."

# Rat plague blamed on water companies

By Jenny Luesby in London

Water companies are being accused of causing a plague of rats by refusing to finance adequate pest control in Britain's ageing sewers.

The first national rodent survey for 20 years, published last year, reported a 39 per cent increase in rat infestations in British homes. Environmental health officers and one of the authors of the survey say that the privatisation of the water companies has been instrumental in this.

However, in Yorkshire local authorities have been fighting about funding to clear the sewers since privatisation. North-West Water is unwilling to meet the full, or even half the cost of rat control and Severn Trent says it is a local *authority responsibility*.

At the heart of the problem is the pest control law of 1949, which requires local authorities to destroy rats on land they own, and enforce control measures on land owned or occupied by others. Most sewers run underneath public highways, so that while water companies own the sewers, the local authorities own the land under which they run.

● Three former directors of Kleinwort Benson, the UK investment bank, will today announce the acquisition of Sorex, Britain's leading rat poison manufacturer.

Sorex, based in Cheshire, is a subsidiary of Shell, the Anglo-Dutch group. It earns nearly £1m pre-tax on a turnover of just under £7m. It accounts for more than half the UK sales of rat poison. Shell has been trying to sell Sorex for more than two years. In January 1994 American Cyanamid bought Shell's agrochemicals businesses for about £700m. It left Sorex, making the company a poor fit in the Shell group.

At the time the dispute over who was responsible for clearing sewer rats saw rat poison sales stagnate in spite of a rising number of rodents. More than 90 per cent of Sorex's sales are in the UK.

UK NEWS DIGEST

# Shareholding reforms proposed

The Department of Trade and Industry will announce on Wednesday proposals to make companies more accountable to shareholders. In a discussion document the DTI will suggest that companies should bear at least part of the cost of circulating resolutions for their annual general meetings, which are proposed by shareholders but opposed by the company's board.

Mr Ian Lang, the trade and industry secretary, will circulate the discussion paper outlining a number of options for increasing the power of small shareholders to table resolutions at a company's AGM. Reforms may suggest companies should bear more of the cost of circulating rebel resolutions the greater the number of votes backing it.

The government, which has consistently promoted a share-owning democracy, has had little option but to respond to a trend which has seen company boards attempting to marginalise small shareholders at AGMs. If the suggested measures are introduced, however, company meetings may be more noisy, but they are still likely to be dominated by the block votes of the big institutional battalions. *Bernard Gray, London*

## Weather channels to begin in June

Two 24-hour television weather channels are due to begin in the UK in June. The Weather Network, owned by Pelmorex, the Canadian media group, will announce today ) that it plans to launch its service on June 2. CableTel, Britain's third largest cable companies, is believed to be close to signing a deal.

The rival Atlanta-based Weather Channel, owned by Landmark Communications of the US, said it would be launching on June 30. Mr Michael Eckert, chief executive of The Weather Channel, said recently that discussions were at an advanced stage with British Sky Broadcasting to carry the channel. The Weather Network also said it was talking to BSkyB about carrying the channel. *Ray Snoddy, London*

## Labour costs 'uncompetitive'

UK companies' profits are low in international terms because labour is being paid more than can be justified in terms of productivity, a report released today argues. The study, by the Centre for Economic and Business Research, claims that low profitability has held back companies' investment, allowing less scope for future growth.

"Relative to our productivity, we pay ourselves about 1½ times more than we can afford if we are to be internationally competitive," says Professor Douglas McWilliams, chief executive of the CEBR. The study shows that, when measured on a comparable basis, UK companies in the 1990s earned a return on capital 23.8 per cent below the Western European average and 40.1 per cent below the US average. *Philip Gawith, London*

## Hanson joins accounting debate

Hanson, the industrial conglomerate, has called for a public debate on the implications of the Accounting Standards Board's controversial Statement of Principles. It is understood Hanson's call is backed by several other companies which have written to the ASB following the extraordinary public attack by one of the UK's Big Six firms – and Hanson's auditor –Ernst & Young, on its vision of the future of British accounting. Hanson's criticisms are confined to what it sees as a potential shift towards current cost accounting – in contrast to traditional historical cost accounting. Supporters of the ASB suggest much of the opposition to the board has come from E&Y clients and is ill-informed.

*Jim Kelly, Accountancy Correspondent*

# Leftwing Tories threaten to resign

By Robert Peston, Political Editor

Senior members of the governing Conservative party last night warned that they would quit the party if it moved in a rightward or more Eurosceptic direction, and that they were prepared to risk the collapse of Mr John Major's government.

A minister on the party's left said that the prime minister would be "dead" if he attempted to "go any further" in adopting the sceptics' agenda. "Loyalty is strained to breaking point," he said, adding that one backbencher could "leave at any moment".

The warning came as Mr Tony Blair, the opposition Labour party's leader, urged disgruntled leftwing Conservatives to join his party, which he is attempting to reposition in the centre of British politics.

The prime minister will this week respond to his leftwing backbenchers' fears by saying that he, too, is committed to the middle ground. "He is not going to shift," said a close colleague of Mr Major's. "On Europe, in particular, a line has now been drawn with the commitment to a referendum on a single currency."

MPs will this week return to the House of Commons after the Easter break in a state of fevered speculation that the government could fall at any moment, now that the by-election defeat in the Midlands constituency of Staffordshire South East has reduced its majority to one.

There was further evidence yesterday of instability at the top of the government when it emerged that a pro-European minister – in addition to the chancellor, Mr Kenneth Clarke – had made it known to the prime minister that he was thinking of resigning, in the run-up to Mr Major's commitment to a monetary union plebiscite. Like Mr Clarke, the minister was opposed to a referendum, but also feared that the government was poised to rule out sterling's participation in a single currency scheme.

A member of Mr Blair's team confirmed that two Tory MPs had held talks about possibly moving to Labour, because of their opposition to the proposed referendum.

From outside the Tory party there was pressure on the prime minister to adopt a more anti-European approach from billionaire Sir James Goldsmith. In a BBC interview, Sir James confirmed that his Referendum party would be fielding more than 600 candidates at the general election – a challenger in every constituency where opponents refused to back his party's demand for a referendum on the UK's position in Europe.

The government is pinning its hopes on the electorate eventually giving it credit for recovery in the economy. A senior party adviser said that the prime minister was intent on pushing through big tax cuts in November's budget.

Over the weekend, Mr John Redwood, leader of backbench rightwingers, urged Mr Major to pledge cuts in public spending and tax.

# Minister's ERM stance backed

By James Harding in London

Eurosceptics in the governing Conservative party yesterday welcomed chancellor Kenneth Clarke's refusal to join a new European exchange rate mechanism, but demanded further evidence of government opposition to European political and economic integration.

Following the weekend meeting of European finance ministers in Verona, opponents of European monetary union yesterday interpreted Mr Clarke's refusal to join the new ERM as a signal that the UK was giving up the option of signing up to the single currency in 1999.

Senior Conservatives called on Mr John Major, the prime minister, to hold a broad referendum on the UK's role in Europe – a move to defuse the threat from financier Sir James Goldsmith's Referendum party.

Yesterday Sir James confirmed that his Referendum party would be fielding more than 600 candidates in the general election, a challenger in every constituency where opponents would not sign up to his party's demand for a referendum on Europe.

Sir James said on BBC TV's *Breakfast with Frost*, that he was not satisfied with Mr Major's pledge earlier this month to hold a referendum on a European single currency.

He added: "This government has unfortunately been unable to come forward with a clear plan. It speaks in one way and acts in another. It's as though there was an instinctive rejection of the idea of leadership."

Sir James would not give details of the question he would put to the British people if his proposals for a referendum were accepted, but said that they would include a review of the Maastricht treaty and deal with "the fundamental question: Who governs Britain?". Sir James confirmed that he would stand in the election suggesting that he might fight for a seat against someone like Mr David Mellor, who is publicly sympathetic to the European project.

Conservatives fear Sir James' Referendum party might not win any seats but could rob candidates in marginal seats of victory.

Mr John Redwood, last summer's challenger for the party leadership, yesterday called on the prime minister to initiate his own referendum. A Conservative referendum on Europe, Mr Redwood suggested, should offer people the choice to stay in the common market but require the UK government to reverse or block any moves towards a European superstate.

Mr Norman Lamont, the former chancellor, said he assumed that if the UK was staying out of the ERM then "we will have disqualified ourselves from a single currency". Mr Redwood said Mr Clarke's comments at the weekend meeting in Verona "will be interpreted by our partners in Europe, quite rightly, that we cannot join the single currency".

Reuters

Kenneth Clarke, at a meeting in Verona, refused to join a new European exchange rate mechanism

# Railtrack hopes float will value company at $2.73bn

By Charles Batchelor and James Harding in London

Railtrack and its advisers hope that the company will achieve an issue price of about 350p per share for a total value of £1.8bn ($2.73bn) when it makes its stock market debut on May 20, in spite of Labour's threat to tighten rail regulatory control.

The company has inherited ownership of rail infrastructure – track, signalling and stations – from British Rail.

Investors will be offered a final dividend payment of between £60m and £70m for the year ended March 31 1996 as an additional inducement, in spite of the fact that Railtrack was publicly owned at the time. This would give investors a return of 15-20 per cent on their partly paid shares in the first year.

Railtrack's "pathfinder" prospectus, which will be published today, will show that investors will be required to make a minimum initial investment of £380 in 200 shares at a price of 190p per share. The second instalment, which will depend on the issue price, will not be payable until 13 months later to give small investors the benefit of two years' tax allowances.

The pathfinder prospectus – more than 250 pages – will show that operating profits fell slightly to just under £300m in 1995-96 from £304m the year before. They are expected to recover steadily over the next few years.

The prospectus will also give details of incentive arrangements for senior executives. The government is keen to avoid accusations that it has created "fat cats" from the flotation, so there will be no conventional executive share options. But directors will be eligible for annual cash bonuses up to a maximum of 40 per cent of salaries if they meet corporate and individual performance targets.

The pathfinder prospectus will also confirm that the government intends to float 100 per cent of Railtrack equity to make it more difficult and more expensive for Labour, the opposition party, to bring the company back into public ownership.

Labour yesterday signalled its determination to hijack the rail privatisation, promising a concerted effort to defeat the government in Wednesday's House of Commons debate on the sell-off.

Ms Clare Short, Labour's transport spokesman, set the tone for Labour opposition to the Railtrack sale, describing its managers as "disreputable and incompetent".

"They're obsessed with lining their own pockets, pigs in the trough. They are a bad bunch of people," she said.

Mr Bob Horton, chairman of Railtrack, would not dismiss Labour's challenge to the privatisation, saying only that it was "fairly unlikely" that Labour would scupper the sale.

Railtrack yesterday dismissed the suggestion that directors would be the prime beneficiaries of the sale: "This is a public flotation. If it is a success then the whole country will benefit - passengers, those whose use the freight services and the directors. There is no stock option for the directors, so it proves they are not on the make."

## Managers 'opposed to sell-off'

The majority of Railtrack's managers are opposed to the company's flotation, according to a survey by the Transport Salaried Staffs Association, published to coincide with the launch of the Railtrack Pathfinder Prospectus today, Robert Rice writes.

More than 80 per cent of Railtrack's middle managers and 51 per cent of its senior managers are opposed to the sale and 73 per cent of all managers think the sale should be delayed. The reasons given by most for opposing or delaying the sale are fears about safety.

Mr Richard Rosser, the general secretary of TSSA, said the outcome of the survey was disturbing. "Not only is there a huge majority against the sale of Railtrack, but the comments, written to us under the protection of confidentiality, convince me that Railtrack is not ready to move into the private sector," he said.

Mr Keith Bill, secretary of Save Our Railways, which published the survey, accused the government of bringing the sale forward against all advice to provide the money for pre-election tax cuts.

# Age discrimination unrest revealed

By Robert Taylor, Employment Editor

The overwhelming majority of managers want the government to introduce sweeping legislation to protect employees from discrimination at work on grounds of their age, according to a survey published today by the Institute of Management.

As many as 85 per cent of the sample said they believed employers should treat age as an "equal opportunities issue" at least equal in importance to race, sex and disability in the workplace which are covered by anti-discrimination laws.

At present only an estimated 20 per cent of organisations have equal opportunity employment policies that include a reference to age. The UK government favours the removal of age barriers at work but it believes this can be best achieved by voluntary means – not through legislation. The survey was made up of 1,648 managers obtained from a postal questionnaire sent to a random sample of 5,000 IoM individual members last August.

The survey said that "surprisingly high figures" favoured banning the use of age limits in job advertisements and legislation "could be related to increased insecurity in employment, higher levels of managerial job mobility and the *fragmentation* of traditional career structures".

The survey also showed that age discrimination at work was not something that just affected managers in their forties and fifties. While 60 per cent of those under the age of 35 said their youth had "stood against them in the job market", 44 per cent of older managers said they had experienced age discrimination at work.

However, the survey found many managers practise age discrimination themselves when recruiting. While 55 per cent said age was a criterion in appointing subordinates, over a quarter said they took age into account when deciding on whether to promote somebody and a third when considering a redundancy or dismissal. Half said they believed age could be a "legitimate consideration in recruitment and selection decision-making".

*Institute of Management, 2 Savoy Court, Strand, London WC2R 0EZ, £50.00.*

**PRICOA Worldwide Investors Portfolio**

Société d'Investissement à Capital Variable
Registered Office: 47, Boulevard Royal
L-2449 Luxembourg
R.C.S. Luxembourg B 39.048

NOTICE TO SHAREHOLDERS

Shareholders are hereby informed that, because the value of the assets in the Utility Series only amounted to approximately USD 3,592,000 as of February 29, 1996, and according to the provisions of Article 5, fourth and fifth paragraphs of the Articles of Incorporation dated January 3, 1992 of PRICOA Worldwide Investors Portfolio (the "Fund"), the Board of Directors of the Fund has decided on March 25, 1996 that the Utility Series cannot be operated in an economically efficient manner because of its small size and its high expenses; it has consequently decided to redeem all the shares issued and outstanding of the Utility Series at a redemption price equal to the net asset value per share calculated on or about May 16, 1996, the Valuation Day on which the decision of liquidation shall become effective, taking into account actual realization prices of investments and realization expenses incurred in connection with the redemption, without payment of any charges.

A Supplement dated May 16, 1996 will consequently be inserted into the Prospectus dated September 30, 1994.

Payment of the redemption price of the shares will be made by cheque in USD mailed to the shareholder's address of record or by bank order to an account indicated by the shareholder, at the latest on May 23, 1996. In the case of shares held beneficially by Prudential Securities Incorporated, payment of the redemption price will be made to the beneficial holder's account at Prudential Securities Incorporated.

The Fund will continue until May 15, 1996, to deal with the requests for redemption and exchange of the shareholders of the Utility Series, on the basis of the applicable net asset value per share, without payment of any charges.

Liquidation fees will be paid by Prudential Mutual Fund Management, Inc.

At the closing of the liquidation of the Utility Series, the proceeds of the liquidation corresponding to shares not surrendered will be deposited with State Street Bank Luxembourg S.A. during a period of six months following the closing of the liquidation; after this period these proceeds shall be deposited with the "Caisse des Consignations".

All the shares redeemed will be cancelled.

Consequently, effective immediately, the Utility Series is no longer available for purchase by investors.

Luxembourg, April 15, 1996 — The Board of Directors

**Banco de la Nacion Argentina**

**U.S. $195,000,000**

Floating Rate Notes due 1994–1997

For the period
15th April, 1996 to 15th October, 1996

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 6.4375 per cent. per annum, and that the interest payable on the relevant interest payment date, 15th October, 1996 against Coupon No. 18 will be U.S. $613.57 per U.S. $50,000 Note.

The Industrial Bank of Japan, Limited
Agent Bank

**GUANGDONG DEVELOPMENT FUND LIMITED**

Net Asset Value

Guangdong Development Fund Limited announces that as at 31st March, 1996, the unaudited net asset value per share of the Company was US$1.026.

GUANGDONG DEVELOPMENT FUND LIMITED
(a company incorporated with limited liability in the Bailiwick of Jersey)

15 April, 1996



# THE WEEK AHEAD

## DIVIDEND & INTEREST PAYMENTS

**■ TODAY**
Abbey Natl. First Cap. Sub. FRN. '09 SFR.1,270.21
Armitage Bros. 3.1p
Barclays Bank £1.90
Do. £1.90
Baring Tribune Invs. 5.5p
BCE C$0.68
BP Fin. Australia 8⅜% Gtd. Bds. '98 $418.75
Brad. & Bing. Bldg. Soc. FRN '97 £164.12
Do. FRN. 1997 £164.12
Do. FRN. 1998 £166.27
Chester Asset Rec. Deal. FRN £1,649.88
Chrysler $0.60
CRH 5% Gross Cum Pf. Ir1.925p
Eldridge, Pope 6¼% Irrd. Unsec. £3.125
7½%Irrd. Unsec. £3.75
Enterprise Oil Sub. FRN. £40,421.23
Everest Foods 1.5p
Finland 11½% Ln. '09 £287.50
Forte FRN 1998 £1,811.34
Gen. Electric ADR $0.0596
Goode Durrant 0.875p
Govett Strategic Invs. 9⅞% Db.'17 £4.9375
Grand Met. ADR $0.7308
Great Universal Stores ADR $0.0957
High Income Tst. 1.6p
Hydro-Quebec FRN '99 £13.99
ICI 9¾% Bds. '05 £97.50
Do. 10% Bds. 2003 £100
Ireland 8% Cap. Ln. '01 IR£4
JDC Gtd. FRN. 1996 $316.68
Johnson Fry Euro. Utilities Tst. 2.1p
Johnson Fry Sec. Utilities Tst. 2p
Johnson Fry Utilities Tst. 1.78p
Kobe Steel 2.65% Bds.'98 Y265,000
Do. 3% Bds. '99 Y300,000
Do. 3.2% Bds. 2000 Y320,000
Manders 5% Cm. Pf. 1.75p
MEPC 9⅞% Bds. '04 £98.75
10¼% Bds. '03 £102.50
Merton (London Boro') 11¼% Rd.'17 £5.625
Met. Water Southwark & Vaux. Water 3% Db. £1.50
J.P.Morgan $0.81
Morgan Sindall 5.625% Conv. Cm. Rd. Pf. 2.8125p
Motorola $0.10
Natl. Australia Bank. Und. Sub. FRN. $316.04
Nightfreight 2.25p
Nissho Iwai 4.7% Bds. '98 Y470,000
Norway 7¼% Nts. '97 $362.50
Occidental Pet. $0.25
Pacific Gas & Elect. $0.49
Ranger Oil $0.08
Regent Inns 3.15p
Richards 4% Cm. Pf. 1.4p
Do. 5½% 1.44375p
Sanwa Australia Fin. Gtd. FRN. '04 $3,192.11
Smithline Beecham 4.65p
Do. A.D.R. $0.4496
Smithkl. Beech/Smithkl. Beckman Eq. Units $0.08966
SONAR 2 Mort. Bkd. FRN. '22 £166.10
Do. B. Mort. Bkd FRN '22 £189.84
Wereldhave Prop. 9.5% Mort. Db. '15 £4.75
Do. 10.75% Mort. Db. '15 £5.375

**■ TOMORROW**
Bear Stearns Gtd. FRN. '30 $30.53
Brit. Funds 2½% Treas. '20 £2.3902
BZW Conv. Invs. Tst. Eq. Unsec. Ln. '96-2002
Fluor $0.17
Hanson A.D.R. $0.2875
M&G Recovery Invs. Tst. 1p
Do. Geared Ord. 1p
Package Units 1p
Natl. Westminster Bk. 9%Nn-Cm Pf. 4.5p
Do. Nn-Cm. $. Pf. $0.532
Nokia FM3
Swansea 13¾% Rd. '06 £6.875
UK Estates 0.1p
Waterman Partnership 0.5p

**■ WEDNESDAY APRIL 17**
Brewin Dolphin 5p
Cowie Grp. 7.35p
E.I. Du pont De Nemours 8½% '96 $85
Enso-Gutzeit Oy 'A' FM2.25
Do. 'R' FM2.25
Hydro-Quebec 11.25% Db. '01 £112.50
Jasmine Co 'B' FRN. '03 Y570,289
St. Paul Companies $0.44
STB Fin. Cayman Sub. FRN '03 $3,437.50

**■ THURSDAY APRIL 18**
Allied Lon. Props. 5¾% Conv. Cm. Pf. 2.875p
Birmingham Mid. Bldg. Soc. Sub. FRN. '05 £1,906.25
Brad. & Bingley Bldg. Soc. FRN '99 £158.50
Brit. Funds 9½% Conv. '05 £4.75
Brit. Sky Broadcasting A.D.R. $0.287
Dalcel Chem. Inds. 5.1% Bds. '97 Y510,000
Do. 5.6% Bds. 2000 Y560,000
Echlin $0.22
Fyffes IR1.195p
Hanson 10% Bds '08 £500
Mitsui Intl. FRN. '99 Y222,760
Prov. Nova Scotia 11¾% Ln. '19 £5.875
Partridge Fine Arts 1.5p
Shandwick 0.87p

**■ FRIDAY APRIL 19**
Beradin Hldgs. 2.75p
BP Devl. Australia 11¼% Gtd. Bds. '01 £112.5
Brieley Invs. NZ$0.04
Budgens 5% Conv. Unsec. Ln. '03 £2.50
BZW Conv. Invs. Tst. 1.5p
CALA 1.2p
Continental Foods 1.15p
Crest Nicholson 1.4p
EUROCAMP 7.25p
For. & Col. Enterprise Tst. 1.2p
For. & Col. High Income Tst. 1.3p
Green Property IR3.1p
Henderson EuroTrust 1p
Do. Units 1p
Linx Printing Tech. 0.9p
Metal Bulletin 11.2p
Murray Income Tst. 2.7p
Redrow 1.1p
St. Modwen Props. 1.4p
Serco 3.25p
Wells Fargo FRN '97 $146.93

**■ SATURDAY APRIL 20**
Islington 11.9% Rd.'17 £5.95

**■ SUNDAY APRIL 21**
Abbey Natl. Treas. Serv. 11% Gtd. Nys. 1997
Brit. Funds 4¼% Treas.'04 £2.4181

## UK COMPANIES

**■ TODAY**
COMPANY MEETINGS:
Brewin Dolphin Hldgs., Founders Hall, 1 Cloth Fair, E.C. 12.00
Sema Group, Hyde Park Hotel, Knightsbridge, S.W. 10.00
BOARD MEETINGS:
Finals:
Britannia Group
Dinkie Heel
Johnson Fry Hldgs.
Olives Property
Interims:
Wardle Storeys

**■ TOMORROW**
COMPANY MEETINGS:
BICC, Hyde Park Hotel, Knightsbridge, S.W. 12.00
Capita Group, 100, Wood St., E.C. 10.00
Commercial Union, The Great Hall, The Chartered Insurance Institute, 20 Aldermanbury, E.C. 12.00
Cowie Group, The Smeaton's Vaults, The Brewery, Chiswell St., E.C. 11.30
FT Group 7 John St., Glasgow 11.00
Record Hldgs., Parkway Works, Kettlebridge Rd., Sheffield 11.45
Peeters Hldgs., The Gibson Hall, 40 Threadneedle St., E.C. 11.30
RPS Group, Moor House, 119 London Wall, E.C. 10.00
Serif, Marlborough Hotel, Henley Rd., Ipswich, Suffolk 10.00
The Second Market Investment Co., Norfolk House, 13 Southampton Place, W.C. 10.00
BOARD MEETINGS:
Finals:
Automotive Precision Hldgs.
Boosey & Hawkes
Cobham
Gradus Group
Hungarian Inv. Co.
Jerome (S) & Sons
Peptide Therapeutics Group
Tesco
Tie Rack

**■ WEDNESDAY APRIL 17**
COMPANY MEETINGS:
British Vita, Green St., Middleton, Manchester 2.30
Britton Group, The St. James Court Hotel, Buckingham Gate, S.W. 10.30
Cantab Pharmaceuticals, 184 Cambridge Science Park, Milton Rd., Cambridge 2.00
Dixon Motors, The Forte Crest, The Marina, Castle St., Hull 10.30
Fleming Fledgeling Investment Trust 25 Copthall Avenue, E.C. 3.00
Partridge Fine Arts, 144-146 New Bond St., W. 9.00
Perpetual, Perpetual House, 47-49 Station Rd., Henley-on-Thames, Oxfordshire 12.30
Persimmon, The Royal York Hotel, Station Rd., York 12.00
Reed International, Four Season Hotel, Hamilton Place, W. 10.30
Sedgwick Group, Conference Forum, Chaucer Theatre, 1 Whitechapel, E. 12.00
Soundtracs, Unit 21-D, Blenheim Rd., Longmead Industrial Estate, Surrey 12.00
BOARD MEETINGS:
Finals:
Havelock Europa
HTR Income & Growth
Ryan Group
Signet Group
Interims:
Five Oaks Invs. Smiths Industries

**■ THURSDAY APRIL 18**
COMPANY MEETINGS:
Baradin Hldgs., 3 Clanricarde Gdns. Tunbridge Wells, Kent 11.30
Crest Nicholson, Runnymead Hotel, Windsor Rd., Egham 12.00
English & Scottish Investors, Gartmore House, 16-18 Monument St., E.C. 3.30
Emco, 118 Cannon St. E.C. 12.00
Foreign & Colonial Enterprise Trust, Exchange House, Primrose St., E.C. 12.15
Royal Insurance Hldgs., The Chartered Insurance Institute, 20 Aldermanbury, E.C. 11.30
BOARD MEETINGS:
Finals:
Ashley (Laura)
[illegible] Publishing
Bodycote Intl.
Boot (Henry) & Sons
Cairn Energy
Era Group
For. & Col. Pacific IT.
French Connection Group
Henderson Highland Tst.
Highcroft Inv. Tst.
House of Fraser
Jackson Group
Mice Group
Morgan Grenfell Latin Amer.
RMC Group
Style
Interims:
WEW Group

**■ FRIDAY APRIL 19**
COMPANY MEETINGS:
Alliance Trust, Meadow House, 64 Reform St., Dundee 12.30
Baldwin, The Registry, Royal Mint Court, E.C. 10.00
Gartmore Emerging Pacific Investment Trust, Gartmore House, 16-18 Monument St., E.C. 12.30
Newcastle Bldg. Soc., Forte Crest Hotel, New Bridge St., Newcastle 10.00
Pacific Assets Trust, 1 Charlotte Sq., Edinburgh 12.30
Regina, 2A Alexandra Grove, Finchley N. 11.30
Relyon, Station Mills, Wellington, Somerset 12.00
BOARD MEETINGS:
Finals:
Automotive Products
Slingsby (H.C)
Interims:
[illegible] Inv. Tst.
Vision Group

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

THIS WEEK

# Empty seats speak loud in parliament

DATELINE

**Rome: the imminent election highlights how individual members count for little in the Italian democratic process, writes Robert Graham**

By the strict rules of the Italian interior ministry, electoral propaganda can only appear in specific public places. To this end, special spaces for posters and pictures of candidates are alloted in each city, town or village. Usually this takes the form of free-standing metal boards at strategic sites. And right now, for the April 21 general elections, a lot of space is required. In some cities almost 30 parties are in the field.

These official billboard spaces are intended to give the public a glimpse of their constituency candidates. But the parties largely ignore such aims, and concentrate on attracting voter attention with the familiar faces of the leaders.

Indeed, Italians are not used to local constituency candidates: voter loyalty is more tribal, identifying either with a party or one of its principal figures. The party leaders are even allowed to stand in more than one constituency – once for the 75 per cent of seats covered by the first-past-the-post system, and again for the 25 per cent covered by proportional representation.

Thus, for instance, Silvio Berlusconi, the media magnate turned politician, could be elected in two different parts of the country, although he is only allowed to retain one seat. Meanwhile, the constituencies rarely have much of a say over their representative. Matters are decided in Rome, and many a candidate is parachuted in, especially if the seat is safe.

Such practices underline just how little individual members of parliament count in the Italian democratic process. Indeed, as voters fill in their forms, many have no idea for whom they are casting their ballot. This has the effect of absolving local deputies of any real accountability for their term in office. The middle-of-the-road deputy need do little to earn a monthly gross salary of L16.9m (£7,092) plus L4.5m in expenses – the highest parliamentary pay in Europe.

Despite accountability being vested almost exclusively with party leaders, the leaders themselves are rarely paragons of parliamentary virtue. During the brief life of the last parliament, party leaders were rarely present to take part in votes. Of the top 15 absentees, 11 were party leaders or prominent public figures with busy schedules. Top absentee was Berlusconi.

*Attendance tables just published* show that almost one-third of the 630 deputies were present to vote in less than half the motions tabled during the last parliament. The average degree of absenteeism was 37 per cent in the chamber and was almost the same in the senate.

For a democracy that places such importance on the role of the legislature at the expense of the prerogatives of the executive, this cavalier treatment of the parliamentary vote might seem surprising. But in part the phenomenon can be explained by changes in parliamentary allowances regulation. Until February last year, deputies were docked part of their daily allowance if they failed to vote. The procedure was abolished after complaints that it unfairly penalised those away on parliamentary business.

*Fortunately for the absentees*, no one clearly defined what might be legitimate business. This suits everyone because the parties often use absenteeism, especially feigned sickness, to deny a quorum for voting to proceed either at the committee stage or on the floor. Thus, in just under two years, the last legislature passed only 270 laws and 426 decrees (legislation proposed directly by the government with immediate effect but requiring ratification within 60 days). This was in contrast to the 3,156 laws drafted.

That the Italian parliamentary system functions badly is disputed by no one. Both left and right talk of the need for reform. Yet hand in hand with reducing the size of parliament is a long-standing project, dear to the old neo-fascist right, to create a series of constituencies for the millions of Italians living overseas. This controversial project has been around since 1955, and its latest form involves the creation of 12 constituencies worldwide for the chamber and six for the senate.

This is the first time that a democracy has sought to include its emigrant population in a worldwide system of constituencies to be represented in a mother parliament. Some 58m Italians are living overseas, and the majority could probably claim the right to vote through Italy's generous nationality laws. However, only 2.1m are registered in consulates and eligible to vote.

A number of host governments including Argentina, Australia, Canada and the US, are openly hostile to the idea that a citizen can vote in two countries, especially where people have laid down permanent roots.

Other governments object because of the principle that citizens should not have the vote where they pay no taxes, and the foreign ministry is appalled at the potential problems and costs.

Do not, however, imagine that in Italy an elected deputy necessarily enters parliament. The seat of the southern city of Salerno was contested immediately after the March 1994 elections. It was only confirmed this year in favour of Filodemo Ianuzzelli, the centre-left candidate – after parliament was dissolved.

PEOPLE

# Teare takes tiller of Rank supertanker

## Bingo and Butlins pose a test of sensibility, writes David Blackwell

One half of the world cannot understand the pleasures of the other, wrote Jane Austen in *Emma* nearly 200 years ago.

Andrew Teare – Jane Austen fan and new head of the UK's Rank Organisation – faces the task of steering the diversified leisure group, owner of bingo halls and Butlins holiday camps, into the 21st century.

Teare last week took over as chief executive from Michael Gifford, who retired at the annual meeting after 12 years in the top job. Gifford's legacy to Rank was a refocused leisure and entertainment company with market-leading positions in cinemas, bingo and holidays, Sir Denys Henderson, chairman, told shareholders.

Only once did Teare, who has been at Rank as a non-executive director since the start of the year, address the meeting. A shareholder and film buff demanded to know what he knew about the film industry, and inquired if the last film he had seen was *Chariots of Fire*. No, said Teare, it was *Sense and Sensibility*, enjoyed at a Rank multiplex.

The shareholder's scepticism is shared by others, for Teare has no background in the leisure industry. After a year-long search by Rank he was head-hunted from English China Clays, the minerals and speciality chemicals group. ECC had head-hunted Teare from Rugby Group, the UK cement company.

However, Sir Denys assured shareholders that Teare would hit the ground running – a reasonable prediction, given that Teare spent most of his first three months as a non-executive visiting most of the group's companies. "I have got to know the senior team pretty well," he said. "This has built up mutual understanding and confidence."

Rank's businesses have been likened to super-tankers: difficult to turn round once on course. Indeed, Teare has inherited a £1.25bn ($1.9bn) capital expenditure programme, much of which is defensive.

Far from leading the leisure industry, Rank is having to catch up on several fronts. Flat-floor bingo clubs, in out-of-town locations, are replacing the bingo clubs that were housed in disused cinemas. Single-screen cinemas have given way to multi-screen complexes. And Rank has been slow to exploit developments in the UK holiday market. However, Rank's new chief executive insists that Rank will be introducing new concepts in all three areas, adding that he will be looking at the possibilities of extending the European holiday business. Further, the £1.25bn investment programme would be capable of significant adjustments under his direction. "I feel in no way constrained by what is in place already," he says.

He has already made his first outside appointment, choosing Jim Berk as head of Hard Rock Café. Berk was previously responsible for the Grammy awards at the National Academy of Recording Arts and Sciences, and is expected to return the brand to its rock 'n' roll roots.

Hard Rock has been successfully developed from a UK to a global brand. Rejecting suggestions that it should be floated off, Teare stresses that this is an important brand on which to build shareholder value.

Berk's appointment was part of a big shake-up in Rank management at the beginning of last month. The reorganisation created a new recreation division, grouping the Odeon cinemas with the bingo and nightclub businesses.

The cinemas were previously with the film and television division, but Teare believes it far more logical for the cinemas to be with the fast growing multi-leisure centre business. Rank Precision Industries, which manufactures lighting, cathode ray tubes and measuring equipment, has dropped out of the film and television division, and most observers see it as a likely target for disposal.

There has also been speculation that the video duplication business should be sold. But Teare believes it more integral to the film business than many think, and enhances the ability of the film division to generate international earnings.

The new chief executive is basically happy with Rank's new structure and management, and with its capacity to deliver increased shareholder value. He is pragmatic about the Rank Xerox stake, which needs to be retained for several years for tax reasons.

A strategic review launched soon after his appointment last November is still under way. "It will be some months before the agenda is set, and some time before it is put in place," he says, playing down hopes for quick action. But he recognises the need to provide early signals on the way forward when he presents Rank's interim results in August.

Teare has inherited a £1.25bn capital expenditure programme

NAMES IN THE NEWS

### Waterhouse no longer keeping it in the family

*Talk about a family business*, writes Richard Waters in New York. *There are no fewer than six* Waterhouses at Waterhouse Securities, a US stockbroking firm – and all of them, after last week, are likely to be very rich.

Lawrence Waterhouse Jr (not to be confused with Lawrence Waterhouse III) has just agreed to sell his family firm to Toronto Dominion Bank for $525m. Along with his five children, employees all, the New Yorker will pocket around $120m of that.

This is just the latest sign that the oldest Waterhouse possesses the sense of timing one would like to see in one's own stockbroker. Back in May 1987, the former marine judged the debut of his discount stockbroking firm as a public company to perfection: the shares sold for $7, then promptly fell into a post-crash slump of between $3-$5 for the next four years.

Now, with the stock market riding high and small investors back in droves, Waterhouse is selling again. Thanks in part to the generosity of the Canadians, those who bought in May 1987 would have seen the value of their investment jump 21-fold, adjusting for stock splits.

Waterhouse's offspring have multiplied with equally spectacular results. After two daughters came the boys – triplets. "He wanted one son, but he ended up with three," says a long-time associate.

It seems that Waterhouse *pere* is not planning to take Toronto Dominion's money and run. He has signed a six-year contract to continue as the broker's chief executive. A fit 58-year-old, associates say he has the stamina and drive to continue growing the firm.

The five younger Waterhouses, all in their late 20s or early 30s, may decide, though, that there is less to be gained from staying with a family business which is no longer *family*.

### Hongkong Telecom chief in focus

Merger talks surrounding Cable & Wireless have thrown the spotlight on Hongkong Telecom and on Linus Cheung, its chief executive, John Ridding reports from Hong Kong. Hongkong Telecom is controlled by C&W, and supplies much of its profits.

Since his appointment in 1994, Cheung, 47, has been responsible for Hongkong Telecom's expansion strategy on the Chinese mainland. His rise was swift. Prior to joining Hongkong Telecom he was deputy managing director at Cathay Pacific, the Hong Kong-based carrier controlled by Britain's Swire group. Before that Cheung spent a few years at the government's policy unit, the territory's think tank.

Cheung's ascent at Hongkong Telecom partly reflects broader political considerations. He is the first ethnic Chinese to hold Hongkong Telecom's top executive post, a useful asset ahead of Hong Kong's handover to China next year.

But there have been problems. The carrier's domestic monopoly was ended last year, drawing competition from thrusting new players. And dealing with China in a strategic and sensitive sector has proved complex.

However, Cheung has won praise for his efforts to respond to increased competition. Measures include a programme of cost cuts and a revamping of marketing and customer services.

With respect to the mainland, however, the company's efforts have drawn mixed reviews. Cheung has sought to develop high-level contacts, even hiring Lu Gang, son of China's top official on Hong Kong affairs. Hongkong Telecom has also concluded some significant deals, including a fibre-optic cable link between Guangzhou and Beijing and a $300m agreement to develop networks on the mainland.

But progress with these agreements has been slow. "There is a problem with delivery," says one analyst. He also notes that when C&W's new top executives paid a visit to Beijing earlier this year, Cheung, a member of the C&W board, was not on the team. "This might just have been a question of schedules," says the analyst. "But it raised eyebrows in Hong Kong."

### Gee's style suits Moss Bros

When Rowland Gee, managing director of the UK's Moss Bros, the up-market men's-wear retailer, announced the company's fifth consecutive annual profits increase last week, plenty of analysts were irritated, Peggy Hollinger in London writes.

"Every time we make a profits forecast, he tries to talk us down," said one analyst, "and every time the company comes in with much better figures."

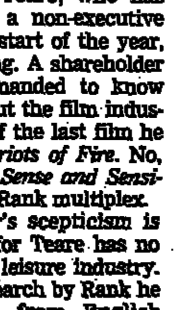
Gee came to Moss Bros through the company's 1989 takeover of Cecil Gee, a high-fashion chain. His father founded Cecil Gee in the late 1920s with a few hundred pounds borrowed from a disapproving parent. But within a few years the company was well known for its pioneering approach to fashion. Son Rowland remembers with fondness the "Cary Grant, double breasted fashion" which his father promoted in his London shop.

Cecil Gee was even awarded one of Italy's most prestigious honours, the Commendatore, for his services in spreading Italian fashion in the UK. Rowland followed in his father's footsteps, working his way up from warehouse boy to managing director of the Moss Bros Group at the age of 43.

*En route* he studied textiles in Paris and ran Cecil Gee's design consultancy. He is credited with transforming Moss Bros from a staid, conservative formal wear outfit into a group which consistently outstrips expectations and retains an acute awareness of fashion.

Most recently, the group opened a shop in London's Regent Street under the name of Hugo Boss, the German designer label.

"The company has been very well managed by people who were cautious throughout the recession," says one analyst. "They are now getting the benefits of that."



**Stephanie Flanders · Economics Notebook**

# The riddle of the middle class

## Blair's New Labour party is wooing Britain's middle classes by making them feel poorer than they really are, an electoral strategy which echoes that of "New Democrat" Bill Clinton

Tony Blair used last week's trip to Washington to reassure most of the UK's highest earners that their "middle incomes" would be safe in the hands of a Labour chancellor. The voters he was reaching out to are not, by any stretch of the imagination, on middle incomes. But making them think they are could be a *potent* electoral weapon for the Labour leader in the upcoming election.

The specifics of Labour's tax policies have yet to be worked out. But Blair is said to believe that those earning £30,000-£40,000 a year have been unfairly squeezed by recent Conservative tax increases. Ideally, under Labour, they would pay less tax; certainly not any more.

Few of the journalists reporting on the Labour leader's remarks thought to quibble with his definition of middle incomes. But the graph reveals that he is leaving very few taxpayers out.

Even assuming that a Labour Chancellor plumped for the lower end of the suggested range, Internal Revenue statistics show that those earning a gross income of more than £30,000 were among the top 7 per cent of UK taxpayers in 1993-1994.

Drawing the middle income line even higher, at £40,000 annual pre-tax income, would exclude all but 5 per cent of taxpayers from Labour tax rises.

None of these facts will be news to the New Labour team. In fact, they merely confirm how closely their electoral strategy echoes that of the "New Democrat" Bill Clinton. By and large, the US president's definition of a middling income has been even more generous.

For example, his latest outline budget for 1997, published last month, includes a "middle class tax cut" for all families earning gross incomes of less than $75,000 (£49,300) a year, in the form of a $300 tax credit for every child under 13 (rising to $500 in 1999). As the second pie chart shows, such households made up just under 91 per cent of those filing federal income tax returns in 1994.

Even this sweeping definition of the middle class is selective by US standards. Earlier versions of the president's tax-cut proposal would have given the child tax credit to families earning up to $120,000 per year, or well over 95 per cent of tax-paying households. For their part, the Republicans insist that it *should go to* "middle class" households earning less than $200,000 a year: all but the top 1 per cent of filers.

It is hardly *surprising* that the right should want to incorporate all but the very richest into the economic mainstream. Indeed, perhaps the greatest achievement of the Republican and Conservative administrations during the 1980s was to persuade the less well-off to identify with tax policies which were in fact heavily skewed towards those on high incomes.

*Many on the left, however*, question whether progressive parties should adopt the same *policy of* inclusion. The first, practical, complaint would be that it could put severe limits on a new government's ability to follow through on its campaign promises. Any increase in tax revenues would have to come from a very small group of taxpayers. And, perhaps most important, any tax cuts – or benefit increases – might have to be spread over a much larger number of people, and would thus be poorly targeted to the groups that need it most.

The second objection is more political. By claiming that all but the richest taxpayers could need *help from a centre-left administra*tion, both Blair and Clinton could be said to be pandering to a misguided belief in the "classlessness" of their economies.

As the smaller chart shows, nearly two-thirds of UK voters still consider themselves to be working class. Perhaps most surprising, over half of citizens in the supposedly classless US categorise themselves in the same way.

Clinton, in particular, has been criticised by leftwing Democrats for accepting Republican notions of "middle America" rather than adopting a more class-based, populist approach. Yet there are several arguments which he and Blair can mount in their defence.

First, income tax in fact accounts for a fairly small share of government revenues in both countries: about 25 per cent in the UK. Moreover, the progressive nature of the income tax system means that the tiny percentage of taxpayers left out of Blair's safe tax net represent a much larger share of the tax base. In fact, people earning more than £30,000 contribute about one third of UK income tax revenues; the 1.8 per cent who earn over £50,000 pay roughly one fifth of the total. Similarly, in the US, the 9.4 per cent of filers on gross (adjusted) incomes of over $75,000 per year pay just over half of all federal income tax.

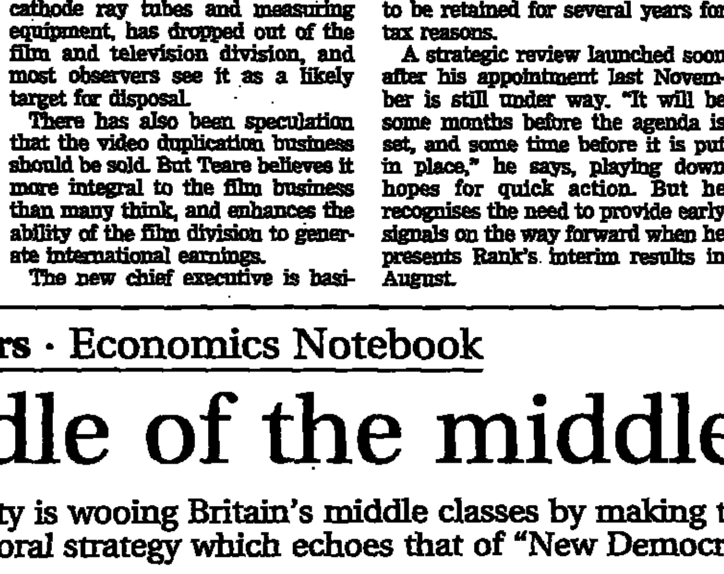
The second, political, rejoinder to the leftwing critics would be that they are forgetting the fact that a large share of the self-described working and lower middle class may aspire to earning higher incomes in future. This means that they may oppose tax rises on high earners even if they themselves would be unaffected, or even made better off, by the change. This, of course, is supposed to have been the error of Labour's tax proposals in the 1992 election, which would have exacted higher National Insurance contributions from precisely those "middle income" earners highlighted last week by Blair.

Finally, and probably at the heart of Blair's strategy, there is always the possibility that, by persuading even those very high up the income ladder that they, too, have reason to feel aggrieved about Conservative tax changes, New Labour will turn John Major's notion of a classless society on its head.

By all accounts, people earning £30,000-£40,000 a year are suffering from no less a "feel-bad" factor than those at the middle and lower end of the income scale. Whether high earners are justified in believing themselves to be experiencing the same rise in economic insecurity as everyone else is highly questionable.

But Blair's is not to reason why – it's to get elected. Sympathising with these groups' new fear of downward mobility could serve this purpose extremely well.

The myth of the 'middle class' tax payer




**Class loyalties**

*Self-identification with social class 1992-3*

| | UK | US |
|---|---|---|
| Middle or upper class | 30% | 45% |
| Working or lower class | 63% | 52% |

Source: MORI, National Opinion Research Centre

MANAGEMENT

Outsourcing has meant that suppliers are now jockeying for pole position in the lucrative world of car seats, writes **Peter Marsh**

# A sitting target for two rivals

The "outsourcing" by big manufacturers of the design and supply of key components has become an important business trend during the decade. In few areas has this trend developed more rapidly than in the production of car seats – a seemingly humble industry, until you realise that it generates business worth £10.5bn a year in North America and Europe.

Dominating the sector are two US companies which provide an object lesson in how suppliers can meet the needs of large customers.

Johnson Controls and Lear are far from being household names but between them they control about half the seats business in North America and Europe. Counting only seats made by outside companies, rather than carmakers themselves, the figure climbs to 70 per cent, with each supplier claiming top position in the industry.

In little more than a decade, Johnson and Lear's annual sales of car parts have grown from almost nothing to more than £2.6bn, putting them both among the world's biggest 12 suppliers, ranked by turnover.

They have prospered by targeting the design and production of what is an increasingly complex part of a modern vehicle, with safety and styling becoming ever more important. Having formed strong links with most of the world's big carmakers, they have exploited the policy of many large industrial groups to concentrate on assembly and marketing and to contract large elements of parts supply to outsiders.

"Both Lear and Johnson were quick to capitalise on their early position in what was an immature market for their product," says the purchasing director of a large European car company. "They showed considerable ingenuity in removing complexity from our production operations."

The big two seat-makers have followed an ambitious acquisition and investment strategy. In Europe alone, Johnson has spent £330m over 10 years building or acquiring seat plants.

Last year Lear surprised the motor industry with its £613m purchase of Automotive Industries, a US supplier of interior trim products (such as plastic roof linings and door panels) which are seen as complementary to seating.

Lear believes the acquisition puts it at the forefront of the £22bn-a-year world industry manufacturing interior products for cars, including trim components for the "living space" within the vehicle as well as seats.

According to its strategy in this area – which to some degree is shared by Johnson, although regarded with some scepticism by some in the business – the world's carmakers will ultimately treat vehicle interiors in a similar way to house-builders, contracting out most aspects to the automotive equivalent of the interior decorator.

But where the two companies have differed is in their approach to Japanese carmakers. Johnson has formed joint ventures in Europe and the US with three of the main Japanese seat-makers, Tachi-S, Araco and Ikeda, whereas Lear has largely shunned such groupings.

Johnson's strategy has enabled it to take a share in producing seats for some of the Japanese carmakers' overseas transplants and, according to industry observers, puts it in a good position to benefit from new factories due to be set up by groups such as Toyota and Nissan in emerging markets, including China.

From the manufacturers' perspective, seats can be surprisingly lucrative. They comprise the second most expensive part of a car after the engine and transmission system, typically accounting for between 3 and 6 per cent of the retail cost of a model.

Johnson's seat-making activities account for roughly half its total output – with other parts of the company producing engineering and plastic components – but Lear is exclusively a maker of seats and related parts.

The two companies have prospered partly because of fortunate timing. They started extending their seat-making operations in the US in the mid-1980s. That coincided perfectly with interest among General Motors, Ford and Chrysler – the US's Big Three car groups – in borrowing the philosophy of outsourcing from Japanese makers. European manufacturers soon joined in the trend.

As recently as 1984, US companies made nearly all their own seats but now they buy some 70 per cent from outsiders, with the figure for Europe only slightly lower.

The two big seat-makers are largely excluded from Japan where the field is dominated by local companies. Competitors to Lear and Johnson outside Japan include Delphi of the US, which is part of General Motors, Canada's Magna, Bertrand Faure of France and Keiper of Germany.

In Europe and North America, Johnson and Lear's supremacy has allowed them to enjoy the benefits of huge economies of scale. They each have about 100 factories making seats and related interior components on a just-in-time basis direct to the car production lines.

According to Ken Way, Lear's chairman and chief executive, his company turns over its inventory twice a week in many of the factories – a high figure for industry generally.

Johnson has developed a particularly close relationship with Ford, from which it looks likely to win a valuable contract to build seats later this decade for the company's CW-170 "world car", a replacement for existing versions of the Escort and made to different designs on either side of the Atlantic. This vehicle will be built in the next few years to the same basic design in Europe, the US and possibly emerging markets such as South America and East Asia, and the seat-making contract could be worth some £397m a year.

Johnson also has close links with Renault, resulting from its long-term collaboration with Roth Frères, a large French seat-maker and Renault supplier. Last October Johnson cemented the alliance by paying about £120m for a 75 per cent stake for the French company.

Meanwhile, Lear has close ties with Fiat, from which it bought the company's European-based seat-making plants in 1994 for £105m. Now it is to make seats for the Italian maker's Project 178 world car, which will go into production in Europe and South America. Lear also has strong links with BMW.

In general, however, the big car companies have been careful not to favour either supplier too much. Thus Ford has ensured some contracts are given to Lear to balance its strong links with Johnson, and GM has been fairly even-handed in its seat-making decisions.

"It's not in the carmakers' interest to become too dependent on either company," says Dennis Virag, managing director of Automotive Consulting Group, a Michigan-based consultancy.

Both Johnson and Lear have invested heavily in engineering and design expertise, so that they can cope with the complex brief of developing seats for manufacturers' new models from scratch. Johnson's experience working on Ford's existing European-made Fiesta and Escort models provides a good illustration.

In all the seat manufacturer's activities in Europe up to the Fiesta/Escort project three years ago, design was left largely to the customer.

That changed when Ford's two European design centres in the UK and Germany – the same establishments in charge of the CW-170 project – decided to contract out to Johnson not just responsibility for making seats but also a large part of the design brief for them in the revamped Escort/Fiesta marques.

"The liaison with Ford is a model for the type of activity we plan in Europe," says Thomas Patzelt, Johnson's European marketing manager. "The era of large [plant] expansion is over; we want to get away from just supplying parts and go further into design."

A team of 400 technical and sales people, half each from Johnson and Ford, worked on the project, which ended last year when the new cars came off the production line.

However, the largest part of the seat design was left to about 20 Johnson managers – specialists in areas such as engineering, production and finance, who met roughly every two weeks.

Safety was a specific concern, with Ford specifying stiffer seats to make them less likely to collapse in an accident.

Using 3-D design programs and computerised structural analysis of the kind employed in aircraft engineering, the Johnson team came up with "what we regarded as an ideal safety solution but one in which we did not go over budget [in terms of adding extra weight and component costs]", says Peter Lowe, a Johnson manager who took part in the Escort/Fiesta design process and who now runs the company's seat plant in Burton-on-Trent.

The entire project included six new factories to make seats and related components – with four of them sited in Britain, at Mansfield, Birmingham, Dagenham and Liverpool – and cost Johnson more than £16m.

Meanwhile, Lear says it is working closely with a number of European companies, such as Volvo, Saab, BMW and Ford's British subsidiary, Jaguar, in Europe on new seat projects where it takes over a large part of the design brief.

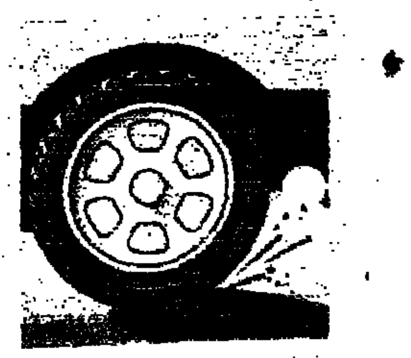
As for Lear's broader aspirations, Way says it envisages further steady growth during the rest of this decade with a roughly threefold increase in revenues from its operations in South America and East Asia by 2000, bringing the figure up to about £460m a year.

"We think more expansion in this industry is possible on the back of geographical growth, more outsourcing by those car companies that still make seats, and the potential for us to use our expertise in new technology and safety," says Way.

In the car industry, however, the balance of opinion seems to be that Johnson is inching ahead of its rival in its growth strategy. "The word on the street is that Johnson is the better operational performer," says one European industry consultant.

According to Michael Flynn, associate director at the Office for the Study of Automotive Transportation at the University of Michigan, Johnson's "enormous effort" in cultivating Japanese partners may be more likely to pay off in the future than Lear's "risky" stance of attempting to set up as a one-stop shop, interior-parts supplier.

Overall, however, the pace of the battle between Johnson and Lear for undisputed top position in the industry is set to continue. Their products might be all about comfort and repose, but neither Lear nor Johnson looks like slowing up.

FAST TRACK

## Gimex Technische Keramiek

**Johan Geurts, the owner of Gimex Technische Keramiek, is nothing if not convinced about the properties of technical, or engineering, ceramics. He saw the light in 1984 when, after having left his job as an English teacher at a Dutch high school, he was on a business trip to Japan for his new employer, a Netherlands manufacturer of laboratory products.**

The Japanese, world leaders in engineering ceramics, a wear-resistant, non-corrosive substitute for metals and plastics, opened Geurts' eyes to the possibilities of this new technology. He did not shout "Eureka!" but he did think: "There's pioneering work to be done here."

Without a business plan, but with boundless enthusiasm, he set up Geurts Import and Export, or Gimex for short. His venture was one of the first in the Netherlands, though bigger companies such as DSM and Hoogovens also moved into engineering ceramics.

The hype surrounding engineering ceramics soon had the popular press writing about when car engine blocks would be made from ceramics, doing away with oil for lubrication and air or water for cooling.

The excitement has since died down, and many big companies such as Hoogovens have moved out of engineering ceramics because of the long time it may take before the material is as widely used as plastic. But Gimex, based in the Dutch town of Geldermalsen, has prospered on the slow, gradual acceptance among companies that technical ceramics can substitute for metals and plastics, particularly in the offshore oil industry, where long-life, low-maintenance parts are essential.

"At one time, people thought technical ceramics meant a real revolution. We now know it's more a question of evolution," Geurts says.

Gimex itself has evolved into the biggest supplier of engineering ceramics in the Netherlands and Belgium. In the early years, starting from low levels, turnover doubled annually, and it now enjoys yearly growth of 30 per cent. Geurts prefers not to reveal absolute figures: "It doesn't pay to make others too enthusiastic about the sector."

With a workforce of just nine people, Gimex consults, trades and supplies technical ceramics, often to tailor-made specifications drawn up with clients. Its main supplier is Dynamic Ceramics of the UK.

When the British company had a management buy-out six years ago, Gimex took a 50 per cent stake, sealing a partnership that recently won a "runner-up's" citation in the annual Anglo-Dutch business awards.

Later this year, Gimex hopes to conclude a joint-venture agreement with a German company, giving it better access to one of the main European markets for technical ceramics.

Further down the road, Geurts plans to double his workforce during the next five years and to open a plant in the Netherlands that will use injection-moulding production methods for technical ceramics. However, the Dutch company's successful partnership with Dynamic Ceramics will continue.

**Ronald van de Krol**

# Two's company, 22's a crowd

**Lucy Kellaway**

Last Thursday all 22 directors of Lloyds TSB traipsed up to Edinburgh for the company's first AGM. They were the cream of British business past and present – including Sir David Plastow, Sir Ian Prosser, Sir Richard Greenbury and Sir Simon Hornby.

Marvellous though the sight must have been, one cannot help wondering why the merged bank needs quite so many bodies on its board. Surely a large board is unnecessary, expensive, inefficient. It is also unfashionable.

Banks have traditionally had huge boards, but the trend is now to reduce them. Barclays and National Westminster, which once upon a time had more than 30 directors, have now cut their numbers roughly in half. Even Marks and Spencer, which boasts one of the biggest boards around, has fewer directors than Lloyds TSB.

In the old days, when the purpose of board meetings was to meet old chums for a good meal, the more the merrier. But now boards have work to do. Their main task is to set strategy, and the idea that 22 people can sit round a shiny table and have a productive discussion about the direction of the company is implausible.

The board's other task – to act as a police force – requires enough non-executives to staff remuneration and audit committees, but even then half a dozen would seem more than adequate.

Lloyds TSB could argue that it has already cut the board to the bone. Both of the companies had remarkably well-endowed boards to start off with, and as a result of the merger, 14 of the directors have gone.

And if anyone still thinks the board is too large they should reflect on the board announced last month by the merged Bank of Tokyo-Mitsubishi Bank of Japan. Bank of Tokyo had 35 directors, and Mitsubishi 36; the merged group has shed just two and now has a board of 69. I'd love to see that table.

What do you think of the way that your organisation is run? Hopeless? A joke? You are not alone. A recent survey in the US shows that nearly half of employees are cynical about the companies they work for, and suspicious of senior executives. Yet despite this, management persists in communicating with workers as if they were a bunch of Pollyannas, happy to espouse (or as they would say, "take ownership of") every hare-brained new scheme.

The favoured way of communicating a new policy to staff is for the chief executive to have mass meetings, a roadshow, and to beam himself by satellite to far-flung places, so that every employee can hear about changes from his lips. The message is then backed up by posters, company magazines, videos and by mission and value statements.

This method is all wrong. According to a remarkably sensible article in the next Harvard Business Review, companies should cancel the executive roadshow. They should scrap the videos and magazines. They should forget the mission statement. Employees would rather hear about change from their immediate supervisors whom they are more likely to trust. Workers should be told in person (videos are only there to be giggled at) and messages should be devoid of mission statements. The only things employees want to hear are facts.

So there you have it. And will companies read the HBR article and take any notice? Of course not. They have all just hired directors of communication, and what are these people supposed to be doing if not introducing value statements and starting up corporate TV channels?

I see that Charles Handy, management writer turned radio star, has opted to call himself a "social philosopher". I am a bit hazy about precisely what a social philosopher is; the only others I can find who are described in this way are Arnold Toynbee and Rudolf Steiner.

Handy may feel that as his interests are broader than just management, he does not wish to define himself too narrowly. Even so, his is a problem shared by all management experts: there is no acceptable way of describing them. "Management guru" is a frightful term as it suggests something spiritual backed by unquestioning disciples. The reality is different: an increasing number of "experts" struggling to make a living from selling ideas about management. It is surely time to give them a name.

I've had a hard week. The problem has been a small modification introduced to our computer system. I can see the new system is an improvement, and I have received adequate training for its use. But I want the old one back. My resistance might be blamed on age: I am slightly too old to be comfortable with computers. But colleagues in their 20s feel just as put out. This says something about change in general – if it is this hard to make people tolerate a minuscule alteration, to make them accept real change seems well-nigh impossible.

## BUSINESS EDUCATION

**Ian Hamilton Fazey** talks to the professor who is bringing a breath of fresh air to Liverpool

# A typhoon in a teacup

Hurricane Nancy hit Liverpool last October. Professor Nancy Bord is pleased with the sobriquet bestowed on her by supporters and nervous academics alike. *It means* they have noticed the change.

It was Peter Toyne, the entrepreneurial vice-chancellor of Liverpool John Moores University, who spotted she might be available. She was languishing at the Hoover Institution on War, Revolution and Peace in Stanford, California, having joined the exodus of Bush administration advisers from Washington DC after the 1992 election.

"I needed more excitement and a challenge," she confesses. "I met all the staff and told them I represented something different and asked them if they were prepared to live with it. I took a vote. There were one or two outright negatives, but they were a tiny minority. That's how I became director of Liverpool Business School."

The result? "I am the school's competitive advantage. The others haven't got a woman and they haven't got an American woman," she declares. She admits Liverpool's profile is not exactly high, even though with 5,000 students and 200 staff it has become one of the UK's largest business schools in the nine years since it was founded.

"There was lack of leadership in the past and poor marketing. I am the fifth incumbent. All of my predecessors were dyed-in-the-wool academics. You need a business person to run a business school."

Her own background includes a PhD in economics from Massachusetts Institute of Technology and a spell as head of strategic planning for the Pacificorp utilities company. In Washington, she was a partner in an investment boutique, buying and selling small and medium-sized enterprises before becoming adviser on regulatory affairs to the office of vice-president Dan Quayle.

She says: "British business schools do superb in accountancy and reasonably well in economics and finance. But when it comes to pedagogy, UK schools are rigid, old-fashioned and out of touch. Also, none of the UK business schools do their marketing as well as the American schools. But why should you go to a business school that doesn't market itself well?"

She markets managerial usefulness. "If you want to be a research *scholar, don't come to* us. Our mission is human development, to give people ideas, skills and attitudes to advance their careers. We can still do all that with a high degree of academic integrity. Our students want practical solutions they can apply tomorrow. They want teachers who have done it."

Perhaps only a woman would classify the school's products as prêt à porter and haute couture, but these are her preferred terms. The 3,700 undergraduates take the off-the-peg merchandise, though not from Bord herself, who deigns only to teach postgraduates and executives.

Teachers are no longer lecturers, but senior programme executives and managers. Staff *have to compete for resources* and classes. "Business education is a dynamic market," she says. "We compete on service. We go where the customer wants. The faculty can't just teach what they want to teach."

Liverpool's main postgraduate product is a two-year part-time Master of Business Administration degree but she believes the school's most promising piece of haute couture is its executive MBA, spread over nine weekends a year in a country house hotel and costing £8,500 a head. There are 25 people per group in the 35-to-55 age range. She wants 30 per group and six courses each year.

Hurricanes, of course, run out of energy. Will she wilt? *Bord says she is committed to* Liverpool for as long as it takes to create a premium-brand image for the business school and a clamour in the marketplace for its products. How long will that be? "I come from a culture where nobody has the same job for more than three years," she admits.

American Nancy Bord is shaking up the cosy world of academia

# Trawling cyberspace for the right course

**Surfing the Internet, once the sport of the spotty teenager and computer nerd, is fast becoming a respectable activity for the stiffest of grey-suited business managers. For many the Internet will soon be their alma mater.**

In the US, University Online is the latest manifestation of what is variously known as a "distance learning" organisation or the "virtual business school". Set up in 1994, the school began putting courses out on the Internet just this year but already has 2,000 students. President Carl Tyson predicts that 1m students will enrol by the end of 1997. "The Internet has really changed all the rules," says Tyson. "It allows you to reach so many people."



University Online works together with universities and businesses – Dun & Bradstreet, California State University and George Washington University, to name three – to prepare seminars and courses to be sent via the Internet. Up for grabs *is a slice of the annual corporate education* market worth $50bn (£32.6bn) in the US.

University Online then approaches large companies to get their approval for company employees to enrol for courses.

The courses include management education, technical training and remedial courses – helping staff to master skills they have missed. They could last anything from several hours to a full university semester course of 45 hours.

University Online already has an agreement with the George Mason University, in Fairfax, Virginia, to transmit one of its MBA courses in financial accounting from this autumn.

Although the course content is accredited through recognised US educational bodies, for the students to gain a qualification – such as the MBA – they would have to sit traditional examinations at an approved centre.

One obvious advantage of using the Internet as a delivery mechanism is that it enables students to study when they choose and for as long as they choose. But unlike CD-Rom or satellite broadcasts, the Internet also enables the course tutor to monitor students. Report mechanisms built into the programmes send back information to the tutor about whether students are coping.

If a student, say, was continually making the same mistake, the course tutor could identify this and send a message suggesting the *student go back over one element. Students* can message tutors if they hit obstacles, too.

The course material can also be continually updated, Tyson says. "That's the real strength of the Internet. It builds in the strength of a CD with the strength of face-to-face tuition. You don't have the restraints of the old media."

**Della Bradshaw**

BUSINESS TRAVEL

# Warm wind of change thaws Latvia's ice age

**Amon Cohen** finds that Riga is improving markedly for travellers but there are still problems

In centuries past, when the earth was colder, there was a simple way to travel from Scandinavia to Latvia. You could walk. The Baltic sea froze in winter and travellers would set out across the ice. An inn was set up midway, allowing them to break their journeys overnight.

Facilities for today's business traveller to Latvia are not quite so rudimentary, but they are not far off. The first international hotel chain has only just opened in Riga, the capital, and it is still extremely difficult to change travellers' cheques. Outside Riga, it remains almost impossible to make an international telephone call.

And another thing. Don't drink the water.

Such problems are symptomatic of a country which, like all parts of the former Soviet Union, has suffered as it joins the international marketplace for the first time.

Latvia is also struggling with another novelty: freedom. Apart from 20 years of independence between 1920 and 1940, it has been controlled by either German or Russian/Soviet overlords for 70 years.

Independence came again in August 1991, and although some have prospered – particularly the urban young who speak western languages – others are missing the economic certainties of the Soviet era. As in neighbouring countries, the mafia is operating virtually unchecked and is widely held responsible for the collapse last year of Banka Baltija, a debacle in which one-third of all deposits in the Latvian banking system was lost.

"At the time of independence, our slogan was 'barefoot and free'. Now we are only concerned that we are still barefoot," says one Latvian.

However, Latvia is gaining a reputation as the financial centre of the Baltic states and businesses are starting to flourish there. Conditions for business travellers are improving all the time – the state of Latvia's telephone system serving as a useful index of progress.

"When I arrived here in 1993, it was almost impossible to make an international call without booking it two hours in advance," says Art Krieger, general manager of the Radisson SAS Hotel Riga, which opened officially earlier this month. Now it is easy to make an international direct-dial call from the Radisson and the rest of the capital. Cable & Wireless, the telecoms group, is installing fibre-optic lines throughout Latvia, which should make IDD possible in all parts of the country.

Riga, in particular, is well positioned to cater for travellers. The charming old city is reminiscent of Prague, and there are plenty of atmospheric restaurants and bars.

Another seasoned visitor to Latvia who has noticed improvements is Staffan Riben, president of the Swedish operation of Statoil, the Scandinavian petroleum company. Riben is also chairman of Statoil's growing businesses in all three Baltic states.

"It is absolutely fair to say that things are a lot easier here now," he says. "Once you walk into a good business hotel, you cannot tell the difference from anywhere else. Four to five years ago, the only hotels that were available were Soviet-style operations that were not run by people in the service business. It is no particular hardship coming here now, nor to Lithuania or Estonia."

In the opinion of Riben and other observers, there are four hotels in Riga that are of particular interest to western visitors. Perhaps the most curious is the Eurolink, which occupies the third floor of a less recommended Soviet-era property called the Hotel Riga. The Eurolink is run by Swedes, whereas the Hotel De Rome, similarly located at the edge of Riga's old town, is a German operation.

The Metropole, which flourished during Latvia's first period of independence, is also highly considered. As for the Radisson, the latest and largest addition to Riga's hotel scene, it claims to be unique in Latvia in offering a fitness centre and 24-hour room service.

There is also a selection of non-western hotels for those who like to go native, but this is not advocated by Staffan Riben. "I would recommend the internationally owned hotels if you want to do a job without too much hassle or concern for whether things work," he says.


Outside Riga, accommodation is much more basic, but it is a small country and it should therefore normally be easy enough to return to Riga for the night.

One area in which there has been marked improvement is aviation. Although Latavio, Aeroflot's successor in Latvia, is bankrupt, there is a new carrier called Air Baltic. The principal shareholders are the Latvian government, which owns 51 per cent, and Scandinavian airline SAS, which owns 29 per cent.

Air Baltic has brand-new Avro 70 aircraft, although not enough of them. If one is delayed or develops problems, the knock-on leads to flight cancellations. Air Baltic operates to Copenhagen, Frankfurt, Helsinki, London Gatwick, Stockholm, Tallinn, Vilnius and Warsaw, with plans to launch a service to Moscow and St Petersburg in May.

Another Lativan airline, Riair, flies to Gatwick and Paris using the aircraft of Russian carrier Transaero, and several western airlines, including SAS, Lufthansa and Deutsche BA, also operate into Riga.

However, flying into Latvia might prove stressful for some, for visas are not only required but insisted upon for most nationalities. The UK is an exception – a mark of gratitude for looking after Latvia's gold during times of invasion – and Irish and US nationals do not need one either.

Otherwise, travellers really ought to obtain a visa before entering Latvia. Although most travellers can purchase their visas at Riga airport with ease, others are not so lucky. An official at the Swedish embassy tells of a high-ranking diplomat who was stopped at immigration for not having the correct papers.

Protestations that he was there at the invitation of a Latvian minister were waved away and the diplomat was bundled on the next plane back to Stockholm without being allowed a phone call to prove his story.

In that case, officials were over-zealous; in others, they are corrupt. Anyone who drives a western car, for instance, is accustomed to being stopped by armed police and given on-the-spot fines on trumped-up charges.

Despite such threats, common throughout the former Soviet Union, Staffan Riben says that westerners who are careful are highly unlikely to encounter any problems.

"When westerners started to travel here, the shadow of criminality was looming," he says. "It still is, but the threat is not as dramatic as in earlier years."

One tip: if renting a car, hire a driver as well. Latvia's ice age might have retreated, but it can still be pretty wild.



## Travel News · Roger Bray

### Malaria warning

Heavy rains have sharply increased the danger of malaria in South Africa. Storms have left stagnant pools where mosquitoes breed. Areas affected are Northern Province, Mpumalanga and KwaZulu-Natal. In the first three months of this year, half as many cases have been reported as for the whole of last year. Travellers are advised to check the degree of risk in places they are visiting. Cities are generally safe. Rural areas are not. Do not make side trips to northern game parks such as Kruger, for example, without taking a course of tablets. Reduce the danger by using repellent, wearing light-coloured clothes with long sleeves and trousers, and packing an impregnated mosquito net.

### Airline link-up

American Airlines has tied up a code-sharing agreement with El Al. From November 1, the Israeli carrier's flights between Chicago, Newark and Tel Aviv will carry the US group's AA designator code, and some of American's domestic services will bear El Al's code. American does not fly its own jets to Israel, and insists customers will be made fully aware of the arrangement from the time of booking. If not, the Israelis' ultra-robust security precautions may come as a shock. Intriguingly, American has long vociferously opposed code-sharing, under which airlines pool resources on designated routes, arguing that it deceives consumers.

### Sumptuous suite

Ease the day's bruises in your private "Pompeli-style" spa. Or try the mosaic pool, then a Turkish bath, then a glass of champagne in the whirlpool. A hotel suite claimed to be the biggest and most sumptuous in the world has been opened at ITT Sheraton's Principe di Savoia hotel in Milan. It measures 500 sq metres and has three bedrooms and a terrace overlooking the park at the Porta Venezia. It costs £3,268 per night. Asses' milk is extra.

### A swipe at queues

Qantas is to launch a new passport and visa checking system in Sydney which could cut queues for first- and business-class passengers by an average of 20 minutes. At check-in, passengers' details are flashed to Canberra for instant verification. Information such as the passenger's name, passport number and date of birth is then automatically printed on a boarding pass-style card. The card has a magnetic strip with an identification number which allows immigration officers to swipe it through electronic scanners. The system, already in place for transferees and those arriving from Los Angeles, Auckland and Hong Kong, will be available to all departing passengers.

### A real runner

British Airways has been so overwhelmed by demand for those sticky nasal anti-snoring strips which encourage easy breathing by flaring the nostrils that it plans to include them in its Club World and first class amenity packs. Thus far, the airline has handed them out in airport lounges. It is now discussing a contract with manufacturer 3M Health Care. The strips are already beloved of sportspeople. BA says it has been getting requests for extras from business passengers training for long-distance running. Watch out for them in next Sunday's London marathon.

### Nippy number

Remember all those bad car jokes? "Have you got a fan belt for my Skoda?" "Sounds like a fair exchange to me." No more. Car hire firm Budget is offering the Skoda Felicia at its Swiss locations. It's a nippy little thing with a 1,300 engine, and its manufacturer is now under the wing of Volkswagen. But the Felicia still raises eyebrows. Certainly Budget's international reservations centre in Britain does not go out of its way to tell customers about it. "So far as we are aware," said a member of the reservations staff, "we have a Volkswagen fleet in Switzerland. But we can never, ever guarantee the make or model you will get." A Budget spokeswoman said: "Our franchisee in Switzerland is an importer for VW. He decided to put a small number in the fleet, just to test customer reaction. Customers are surprised, but we have had no negative response to the car itself."

Likely weather in the leading business centres

| | Mon | Tue | Wed | Thur | Fri |
|---|---|---|---|---|---|
| Tokyo | 16 | 15 | 17 | 18 | 14 |
| Hong Kong | 22 | 23 | 24 | 23 | 21 |
| London | 17 | 18 | 16 | 16 | 16 |
| Frankfurt | 14 | 17 | 18 | 16 | 17 |
| New York | 11 | 5 | 12 | 15 | 21 |
| L. Angeles | 22 | 21 | 19 | 18 | 19 |
| Milan | 19 | 20 | 20 | 20 | 21 |
| Paris | 17 | 20 | 17 | 17 | 18 |
| Zurich | 12 | 16 | 15 | 15 | 16 |

Information supplied by Meteo Consult of the Netherlands
Maximum temperatures in Celsius



هكذا من الأصل

# Chatter control in cyberspace

## US universities are the testing ground for free speech issues on the Internet, says Victoria Griffith

When four freshmen at Cornell University in New York state decided to send their friends an off-colour e-mail joke a few months ago, they almost certainly had no idea that their questionable sense of humour would spark off a national row.

The freshmen outlined "75 reasons why females should not be allowed free speech", including references to keeping them in the kitchen and serving men beer. The most offensive parts of the intended joke included descriptions of violence to women. When the e-mail spread and eventually ended up on the Internet, it triggered complaints around the globe.

Cornell students were dismayed, and a number of alumni said they would no longer give money to the school. The incident opened a Pandora's box of controversy. Feminists inside and outside the university demanded that the men be punished; free speech advocates rushed to their defence; and the university found itself precariously weighing its legal and social responsibilities.

In the end, the men, after receiving hate mail from around the world and being ostracised at Cornell, voluntarily apologised, signed up for community service and promised to attend a sensitivity seminar.

Free speech in cyberspace is a hot topic on US campuses. Many see incidents like the one at Cornell as a test of how much control society will want – and try – to place on cyberspace as a whole.

Some observers, such as Jonathan Chiel, a lawyer at Choate, Hall & Stewart, who specialises in such cases, regard the universities as a testing ground for free speech issues on the Internet.

One of the questions at the centre of the controversy is how much responsibility universities themselves bear for what students say online. That offensive statements are often made on a university's own networks, sometimes on university-owned computers, complicates matters.

"Even if the university doesn't own the computer it usually owns the socket it's plugged into, which may augment its responsibility from a legal standpoint," says Jeffrey Swope, a lawyer at Palmer & Dodge.

Swope believes the university cases may have implications for the degree of responsibility ordinary companies and online carriers may be held to bear for communications over their networks. "A lot of people in the private sector are watching to see how these cases end up," Swope says.

Nearly all the university cases in the US so far have had sexual overtones. At Virginia Tech last autumn, gay students running an Internet page received hate mail from a campus colleague who was later disciplined. At the University of Memphis, critics have complained about offensive campus discussion groups for singles. But the most serious incident is probably the Jake Baker case, which may eventually go to the Supreme Court.

Baker was a University of Michigan student who liked to write fictional fantasies that usually included rape and violence to women. In one of his tales, he used the name of another student at the university. Things became serious when an alumnus living in Moscow saw the story and alerted officials.

"That this was seen by someone in Moscow shows you how international the Net has become," Swope says. "The Baker case is disturbing, but it's easy to see how what once might have been snickering in the corner of the fraternity house now becomes an international incident."

Free speech advocates take the university cases seriously, and have organised a campaign to prevent censorship on campus. They are battling for cyberspace "speech" codes, which are being considered at a number of universities, including Carnegie Mellon.

Declan McCullagh, a student at Carnegie Mellon, has even established a series of Web pages to track what he views as infringements of first-amendment rights. "There's a very disturbing trend out there to try to control what students say online," says McCullagh.

The universities also feel themselves in a tight spot. David Lambert, vice-president of information technology at Cornell, says: "Of course, we don't like to hear alumni tell us that they're not going to give money to the school any more because of an e-mail incident. But we have to be careful or we'll be on pretty shaky legal ground."

Lambert believes the university would have violated constitutional rights to free speech had it officially disciplined the students responsible for the 75-reasons joke. "This was not a violation of the law, as we saw it, or even of the campus code, since it wasn't aimed at any particular person," he says. "We can't police what people say and think."

Yet the universities may not be able to turn a blind eye to what is being said over their networks, either. Most institutions guarantee academic freedom for students, giving them the right to study in a non-threatening atmosphere. "The most frustrating thing about this was that we had just included an obligatory session for students that laid out acceptable behaviour online," said Lambert. "We tell them not to send anything out on e-mail that they wouldn't want their mother to read or wouldn't be comfortable seeing in the papers the next day. Obviously, these guys weren't paying attention."

The furore over electronic free speech on campus is unlikely to die down just yet. University incidents are expected to be cited in a first-amendment challenge to the US Congress's new act barring obscenity on any Internet page that can be accessed by minors. Peter Toren of the US Department of Justice says: "I think we can expect this controversy to go on for some time."

## Tim Jackson

# World wide venture

*Here in the United States, it is ironic that a small investor can't put $20,000 into venture capital. Yet he is allowed to take the plane to Las Vegas and plunk that same $20,000 down on black, risking it all on the spin of a roulette wheel... Conversely, Internet companies who don't have a gold-plated board of directors like Netscape can find it hard to raise money – particularly if they fall beneath the radar screens of the venture capitalists.*

The speaker is Michael Terpin, 39, owner of a new-media PR company in the Los Angeles suburbs. Terpin believes that these two matching market failures – a shortage of investments for Internet enthusiasts, and a shortage of cash for Internet businesses – add up to an opportunity. Earlier this month, Terpin launched a company called Direct IPO, which plans to pick six or so companies a year and help them to go public by selling shares to investors across the Internet – directly, without the use of underwriters, and without having the shares quoted on a traditional exchange afterwards.

### Spring Street Brewery raised $1.6m on the Web

Direct IPO will make use of SEC rules that allow companies to raise up to $5m by means of a direct public offering (DPO). The due diligence rules and the arrangements for prospectuses are similar to those for the initial public offerings that are the normal route to quotation on Nasdaq. The important difference is that with a DPO, the issuing company can make a market in its own shares.

Traditionally, DPOs have been used by companies to sell stock to an "affinity group". Mail-order houses have persuaded their customers to buy shares along with sweaters, and brewers have sold stock along with six-packs. But some big companies have also used the DPO route, including Control Data Corporation, a computer company that touted its stock door-to-door, and Citicorp, which sold shares to holders of its credit card.

Terpin's *aperçu* is to see that the community of Internet users is itself an affinity group, albeit the biggest of them all. Terpin plans that Direct IPO will offer hot links to client companies' Web sites, leaving them to make their own markets on the World Wide Web. Proof that this is possible can be seen in the Spring Street Brewery of New York, maker of Belgian-style Wit Beer, which raised $1.6m last year across the Web, and continues to provide a forum on the Web for commission-free transactions in its own stock.

Direct IPO will concentrate its energies on picking six offerings out of the 300 or so candidate companies that present themselves each year. In fees, it will take a few percentage points of equity in the businesses it backs, plus a cash fee of 2 per cent or so of the sum raised. Potential investors will be able to download prospectuses from the Web, saving the trouble and expense of printing and distribution.

Regulation and due diligence, however, will mean that the process will still take five to six months. Mark Perlmutter, 44, a San Francisco broker who is Terpin's partner, says he received 50 approaches from companies looking for finance in the week after Direct IPO announced its launch.

Response from investors has been equally warm. A fulsome account on an information service carried by America Online said: "Instead of being treated to the whims of some broker's client favouritism, or being heaved the stale scraps left over after the institutions have filled their plates, the public customer will finally have the chance to buy IPO stock at a fair price and in a fair fashion."

But there are reasons to be careful. All the venture capitalists I have spoken to deny flatly that Silicon Valley is crawling with great entrepreneurs who cannot raise money. They say the reverse is true: good ideas and good people are so scarce that they have to be hunted out. There are also doubts as to whether Internet companies with bright prospects will choose the DPO route. Given that an IPO often covers only 10 per cent of the issued share capital, underwriting and professional fees rarely amount to more than 0.5 per cent of the total valuation. This is a small price to pay for avoiding the humiliation and chaos of cancelling an offering if it is under-subscribed.

### Many businesses choosing the DPO route will fail

Terpin acknowledges freely that many Internet businesses choosing the DPO route will fail, and that some will be dogs and a few fraudulent. "Sure, there are people who will take advantage of widows and orphans," he says, "but that's what the jails are for."

Paradoxically, the dangers of a financial Wild West may help his business, for investors may find Direct IPO's imprimatur reassuring, as against the uncertainty of dealing directly with an unknown business. (It is less reassuring, however, than the presence of an underwriter willing to put its own money into the stock if no one else comes forward.)

Terpin may be right or wrong about the market. But he will probably win either way. If the plan works, Direct IPO's equity stakes in new businesses could be worth tens of millions of dollars. If the companies it floats all flop, then Direct IPO will still stand to make $500,000 or so in fees. For a company employing only a handful of full-timers and operating out of the offices of an existing business, that sounds to me like a nice little earner.

*tim.jackson@pobox.com*

## Cyber sightings

● The Big Book (*www.bigbook.com*) has been up and running for a while, and is establishing itself as an indispensable business tool. A searchable guide to something like 11m US businesses, it also allows users to pinpoint specific businesses on a map. Shockwave and VRML enhanced; a tremendous service.

● Zack's Investor's Window (*http://iw.zacks.com*) is an alphabetical company listing aimed at providing potential investors with a corporate information snapshot. Nicely structured and easy to use.

● The InterBiz Marketplace (*www.inter-biz.com*) has a well-organised range of listings set out by sector, with helpful links to other resources.

● Cambridge Neurodynamics (*www.camneuro.stjohns.co.uk*) has launched AutoNomy – a sophisticated search engine – which, like the hound on its cover, can be trained to aid browsing and sifting of the quantities of Net information.

● Britain's Charities Aid Foundation has established the Corporate Community Involvement Resource Centre at *www.charitynet.org* which it hopes will encourage companies to publicise their philanthropic activities. Among those involved are American Express, IBM, Microsoft, British Airways and BT. Worth a look if involved in the voluntary or charity sector.

● Micropal's Interactive Investor (*www.iii.co.uk/micropal/enhanced/index.htm*) now offers an enhanced performance history service, giving profiles of more than 3,000 investment funds.

● Also worth a browse is the Offshore Entrepreneur (*www.au.com/offshore*), Adam Starchild's guide to "the creation and protection of wealth in foreign countries". Excellent range of useful articles.

● Some good information covering emerging markets is available online at *www.2020tech.com/bradynet*. Nice layout and easy to use.

● Parexel, which serves the pharmaceutical and biotechnology industries, has set up a site (*www.parexel.com*) featuring sectoral information on upcoming conferences and on the company's publications, such as the Worldwide Pharmaceutical Regulation series, as well as links to regulatory agencies.

● "Weren't the sixties great?". The Lava-Cam (*www.newtonline.com/HOMEPG/lava.html*) is – yes – a picture of a lava lamp refreshed every 13 seconds. Hmmm...

*steve.mcgookin@ft.com*

Financial Times on the World Wide Web
www.ft.com
or
www.usa.ft.com
Updated daily

SPORT / ARCHITECTURE

# Racy Swatch scores Atlanta

## Michael Thompson-Noel finds this year's Olympics timekeeper in characteristic off-the-wall mode as it prepares a marketing marathon

In 1932, when the organisers of the Los Angeles Olympic Games contacted Omega to discuss timing, Omega immediately dispatched 80 stop-watches and one watchmaker to La-la Land. As a result, competitors' performances could be compared reliably for the first time. Prior to that, judges at the Olympics had simply taken their own watches along.

Omega is part of Switzerland's SMH group, and so is Swatch, which is handling timekeeping at this summer's Olympics in Atlanta, Georgia. Each year, SMH oversees the timekeeping at some 170 major sporting events worldwide, and has kept the time at most Olympics since 1932.

Swatch is approaching the Atlanta Games in typically upbeat mode. As it explained in a really cool fax: "Swatch intends to do more than 'merely' provide accurate timing [in Atlanta]. Famous the world over for its refreshingly off-the-wall plastic watches, [Swatch] is sparing no effort to help make the Olympic Games a dramatic, emotionally super-charged event. Swatch wants to transcend the scientific aura and sobriety that has embraced the world of sports here and there."

Pardon? Never mind. As well as handling the timekeeping in Atlanta, Swatch will be responsible for all scoring mechanisms and will monitor "every facet of measurement, including height, distance, speed and acceleration" – an Olympic first. It is sending 230 staff and more than 100 tonnes of equipment, including something called Scan-O-Vision as well as state of the art digital photo-finish equipment.

I like Swatch watches. They separate the goats from the sheep. In some offices (and newsrooms), you have to be extremely cool to wear one. Mine is an all-black affair: highly post-ironic.

As an interested party, therefore, I asked Swatch how much it was spending on this year's globe-girdling Olympic marketing effort. A hefty sum, presumably. Among numerous off-the-wall marketing projects, Swatch is launching four special Olympic collections. "Indeed," runs my fax, "the time and *zeitgeist* experts in Biel have created an array of unusual ideas for the wrist."

My question was bounced to Biel. I was told to mind my own business.

■ In Britain, rugby league is still primarily a north of England sport. However, buttressed by some of Rupert Murdoch's loot and incorporating the swishy Paris St Germain side, as well as the London Broncos, its conversion to summertime play has started promisingly, crowdwise. Over the Easter weekend, 11 Stones Super League matches attracted 88,236 fans, an average of 8,021. The equivalent Easter average last year, in the old-style wintertime competition, was 6,242.

Maurice Lindsay, chief executive of the Rugby Football League, welcomes the bigger crowds and what he sees as higher playing standards.

"The pace of the game has dramatically increased under the new rules, and that will lead to the sort of fitness levels achieved by the Australians," says Lindsay. "I am sure that when the international playing scene settles down, as it inevitably will, our national team will demonstrate those improved performance levels."

As global warming takes a grip and summers get hotter and pitches faster and rugby league players more glamorously thuggish (because of all that money), I expect rugby league – together with rugby union, the two having merged – to evolve quite speedily into something closely resembling that other nutty business, American football. Eventually, in about 2025, they'll chuck away the ball and just use tanks.

■ Instead of a buy-back of shares, Dutch soccer club Feyenoord Rotterdam has bought hundreds of tickets from its own fans, to stop them travelling to Thursday's European Cup Winners' Cup match against Rapid Vienna.

Uefa, which governs European soccer, has banned – rather, has tried to ban – the Dutch club's supporters from attending the semi-final, second-leg match following crowd trouble at Feyenoord's quarter-final clash with Germany's Borussia Moenchengladbach last month.

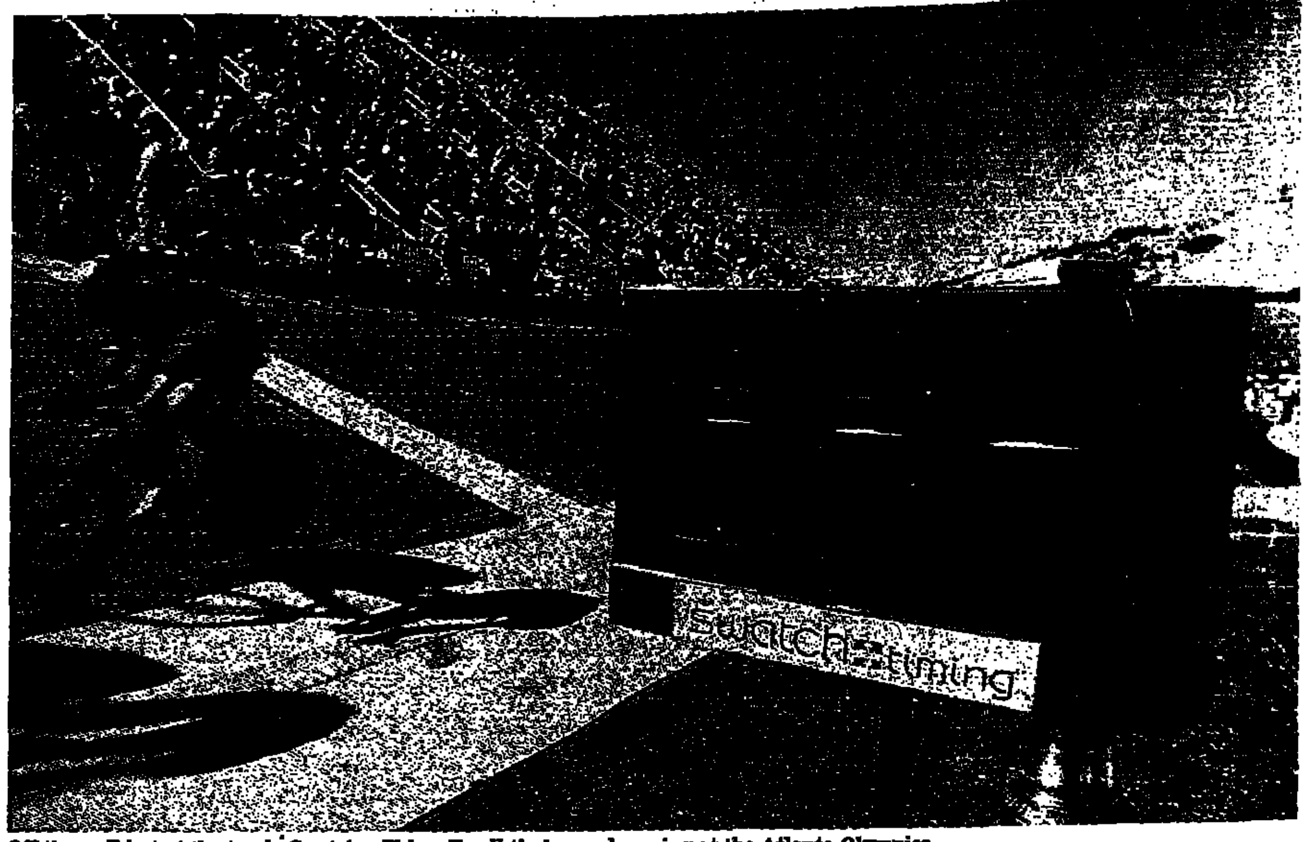
Feyenoord chairman Jorien van den Herik says there is little the club can do other than try to buy back supporters' tickets and urge them not to travel to Austria. The first match, in Rotterdam, was drawn 1-1.

If Thursday finds you in Vienna on wholly innocent business – duck.

■ Even before yesterday's kick-off, players in Singapore's first professional soccer league were warned to say "No" to corruption or face severe penalties. "Players will be closely watched," warned Koh Hung Meng, the No 2 man in Singapore's powerful Corrupt Practices Investigation Bureau.

Called the S-League, the new outfit has eight teams of 26 players each. But Koh and other officials admit it is hard to keep corruption at bay. "It is like honey and bees. Where there is honey, there will be bees," Peter Vellapan, general secretary of the Asian Football Confederation, says wisely.

The maximum penalty players face is five years' imprisonment, plus a fine equivalent to $71,430, plus a penalty equal to the amount accepted as bribe.



Off the wall but at the track: Swatch will handle all timing and scoring at the Atlanta Olympics

The S-League was formed out of the ruins of a match-fixing scandal that hit a Malaysian league in which Singapore's national team competed until 1994. Last year, a Singapore court convicted a Lebanese-born Australian playing for Singapore for conspiring to fix games in collusion with a bookmaker. He was fined $35,715.

Koh says corruption is caused by "greed and high life", and has warned players – and referees – that accepting sexual favours, gifts or commissions are all forms of bribery. International sport is a gigantic business. Some day soon, I expect, corruption will become a livewire issue. Koh Hung Meng sounds a really steely sort. Perhaps he will be appointed world sport's first Roving Commissioner Against Greed, Bribes, Dancing on Tables and All Hanky-Panky.

■ At 84, Thomas Cullen is the oldest American due to run in today's 100th Boston marathon. All up, some 38,500 runners are expected to start, including 104 aged 70 or over. Cullen is one of those who gained entry via a special lottery that has allowed 5,000 runners to circumvent strict qualifying standards.

Cullen is a character. He ran his first marathon 18 years ago, after a mishap on a mountain in Colorado. He was skiing with his son when he felt faint. He says: "They took me to the hospital over my protests and, by gosh, I was having a minor myocardial infarction."

His doctors prescribed walking, but within six months he had run a marathon in California. He's a nuclear engineer, and has never retired. His fax number at home is for his consulting business.

Although marathoners talk about "hitting the wall" about 20 miles into a race, when the body no longer responds as it should, Cullen doesn't believe in walls, in racing or in life. "I think everybody's different," he says. "Some days you want to get up and whip the world, some days you have a hard time lifting your feet."

Let's hope he's got enough breath left for today's race. In case you've forgotten, a marathon is 26 miles and 385 yards.

# Pocket primer to take to the streets

## Colin Amery assesses a handy guide to architectural styles from 1066

I have a friend who once asked for a list of architectural styles to pin up in her bathroom so that she could recite them every day as she prepared for the world. She worried that she did not know when the Romanesque ended and the Gothic began. Even more worrying for some is knowing what is going on in contemporary architecture. For instance, what is post-modernism all about?

At last help is at hand. *Britain: A Guide to Architectural Styles from 1066 to the Present Day*, by Hubert Pragnell, has just been published by Ellipsis (£9.95).

This pocket-sized volume is the primer you have been waiting for. Pragnell is head of the art history department at King's School, Canterbury, and he draws beautifully. I am sure it is because drawing trains us to observe that Pragnell has learned so much about architecture simply by looking.

Pragnell starts at 1066, and observes that the way to identify buildings of the Anglo-Norman period is by the sense they convey of being impervious to time. The metre-thick walls and rounded arches of the White Tower of the Tower of London, for example, were built to defend and to last. The Normans secured their conquest by building fortifications and the reform of the church.

London, Dover and Rochester were dominated by their castles, but perhaps the most lasting sense of a Norman presence is that conveyed by the nave of Durham cathedral – scarcely altered since 1135. Everything is round and smooth and massive.

How did this solidity transform itself into the soaring spikiness of the Gothic? The transition is clearly shown in the reconstructed quire of Canterbury cathedral, which was rebuilt from 1174 after a fire. Here the influence of the great French gothicist William of Sens is seen.

The Gothic cathedrals of England did not suffer the destruction wrought by the Reformation on the monasteries. In them we watch the pure Gothic of the 13th century emerge into the elaborations of the "Decorated" style of the 14th century. This gradually stretches into the Perpendicular – seen at its best in King's College chapel in Cambridge.

Pragnell guides us gently through the complexities of the much restored medieval parish churches of England, and shows how the clear light of the classical renaissance started to penetrate the Tudor twilight. Architects emerge with recognisable names, and in this guide there are chapters devoted to Inigo Jones and Christopher Wren.

Wren gave us the English Baroque, and his City of London churches remain the least appreciated legacy of his time. However, with Pragnell's guide to hand, their significance and originality become clear.

The excitement of Baroque subsides under the palliative panacea of English Palladianism – cool, calm elegance is the norm, and foundations are laid for the modern world. But not before the glorious chaos of the 19th century, accompanied by the discovery of new materials and the joys of engineering.

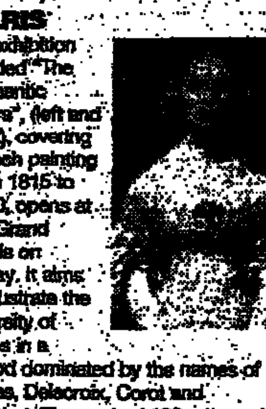
Pragnell takes us into the 20th century in his last chapter, *From the Forth Bridge to Canary Wharf*. Here his script is a bit thin. But his emphasis on technology is probably right. He parallels the development of technology with the huge increase in house building and shows the failure of the tower block alongside the continuing affection for the neo-Tudor suburban villa. In Britain the Bauhaus comes face to face with Betjeman, and this is too complex a debate for a pocket guide.

Above all, this little book is for the beginner to take to the streets. Armed with its basics, they may find enough architectural pleasure to last a lifetime.

# OPENINGS

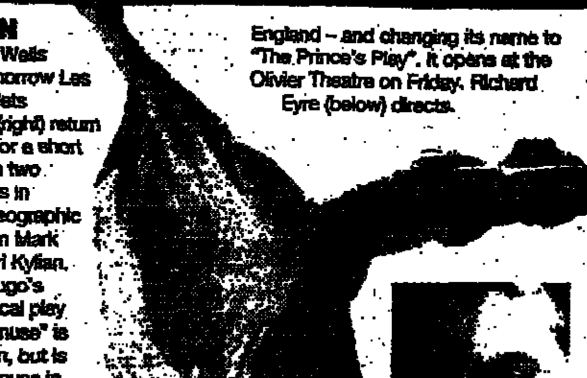
**GENEVA** Having conquered most of the English-speaking world, Tony Kushner's gay epic "Angels in America" is now being performed in other languages. The second part of the play, "Perestroika", receives its French-language premiere tomorrow at the Comedie in Geneva, directed by Brigitte Jaques. Performances continue till May 4.

**BRUSSELS** The German director-designer Herbert Wernicke believes in stimulating the audience rather than relying on stage conventions, so his new production of Debussy's "Pelléas et Mélisande", opening on Sunday at the Monnaie, is unlikely to have a traditional look. Laurence Dale sings Pelléas and Marie Bayo makes her role-debut as Mélisande. The conductor is Antonio Pappano.



**PARIS** An exhibition entitled "The Romantic Years", (left and right), covering French painting from 1815 to 1850, opens at the Grand Palais on Friday. It aims to illustrate the diversity of styles in a period dominated by the names of Ingres, Delacroix, Corot and Courbet. The work of 130 artists will be represented. On Thursday, the Musée d'Orsay opens a retrospective of the German realist Adolph Menzel (1815-1905), who exhibited regularly in Paris salons of the late 19th century.

**LONDON** At Sadler's Wells Theatre tomorrow Les Grands Ballets Canadiens (right) return to London for a short season with two programmes in varied choreographic styles – from Mark Morris to Jiri Kylian.



Victor Hugo's 1831 historical play "Le Roi s'amuse" is seldom seen, but is famous because in 1851 it became (after censorship had changed its locale and characters) the basis of Verdi's opera "Rigoletto". Now poet/translator Tony Harrison brings it to the National Theatre, moving its locale again – this time to 19th-century England – and changing its name to "The Prince's Play". It opens at the Olivier Theatre on Friday. Richard Eyre (below) directs.

**AMSTERDAM** "Münch and After" is the title of an exhibition tracing the links between the great Norwegian painter and those who admired or were influenced by him. The Stedelijk Museum has gathered 35 paintings and 20 drawings from Munch's late period, and set them alongside 60 works by postwar artists, including Beuys, Baselitz, Kounellis and Richter. The show runs from tomorrow till July 9.

# A charismatic conductor of contradictions

**Crusader or conservative? Andrew Clark discusses the career of Riccardo Muti, who returns to London to conduct the Philharmonia on Thursday**

Thursday's concert at the Royal Festival Hall in London promises to be an emotional and highly-charged occasion: it reunites Riccardo Muti and the Philharmonia for the first time in 10 years. The Philharmonia is the orchestra with which Muti built his international reputation in the 1970s. Young, energetic and immensely talented, he transformed it from a struggling orchestra into a great ensemble.

Since his departure in 1982, the Philharmonia has had more than its fair share of misfortune, while Muti has gone on to conquer the world. He spent 12 years as principal conductor of the Philadelphia Orchestra, and has just celebrated a decade as music director of La Scala, Milan. On his rare return visits to London, he usually comes with the Vienna Philharmonic. Next month he conducts it at the opening of the Vienna festival, before taking it on tour to Glasgow, London, Berlin and Paris.

By general consent, Muti is one of the most charismatic personalities in classical music. He is also one of the most contradictory. The charisma is what mesmerises audiences. There is something viscerally exciting about his platform presence – head held high, animal power radiating from the chest, arms carving the air like a swordsman. But the contradictions are the key to understanding his strengths and weaknesses as a musician.

Muti campaigns for the removal of corrupt performing practices in 19th-century Italian opera; at the same time he interprets Mozart and other pre-Romantic composers as if the authentic movement never existed. He talks of restoring *dramma in musica* to Verdi, but the productions he conducts are visually dull and unremarkable. He expects foreign singers to have a working knowledge of Italian, and yet he does not speak to German orchestras in their own tongue. Charming and considerate in private, he maintains a degree of authoritarian control over his Scala musicians which many interpret as a sign of insecurity.

Crusader or conservative? Muti, 54, is a bit of both. Unlike his compatriot Claudio Abbado, he is not interested in the new; he simply wants to do the old things better. Muti's Philharmonia years brought out the young crusader in him. He tackled everything from Bach to Britten, championed little-known Italian composers and made a string of distinguished opera recordings. "He was ambitious, but above all ambitious for the orchestra," says Gordon Hunt, the Philharmonia's principal oboe. "He really put fire in our bellies."

*'He was ambitious, but ambitious for the orchestra; he really put fire in our bellies'*

Muti made people sit up and listen – no small feat for a conductor in his mid-thirties. His authority and technique were already impressive. Musicians remarked on his attention to detail, audiences loved his passionate machismo. It was a golden era for the Philharmonia, as those recordings testify. What stands out is the tight, polished style he brought to composers as diverse as Schumann and Bellini.

Having invigorated the Philharmonia after Klemperer's death, he did the same for the Philadelphia Orchestra after the 40-year reign of Eugene Ormandy. Muti brightened the sound, restored the 18th-century repertoire, introduced opera-in-concert and revived works by forgotten mid-20th century American composers. He commissioned six new pieces for the bicentennial of the US constitution, and appointed the orchestra's first composer-in-residence. "There was a tremendous surge of energy," says Dan Webster, music critic of the Philadelphia Inquirer. "Even with the older players, he brought them back to life."

The longer Muti stayed in Philadelphia, the more frustrated he became at the city's failure to deliver what had been promised – a new hall. After his Milan appointment in 1986, his enthusiasm began to fade, and when he left Philadelphia in 1992, the orchestra felt betrayed. "People thought he was aloof, that he didn't care about Philadelphia and had never really left Italy," remembers one of the players. "He couldn't understand a country that was not passionate about music, he didn't like the way people just got up after a concert and left."

Apart from one brief visit shortly after leaving Philadelphia, Muti has never been back. Whereas Philadelphia saw Muti as an explorer, Milan and Vienna have uncovered the arch-traditionalist in him. At La Scala he has restored operas by Cherubini, Spontini and Gluck, and given Mozart a more prominent place than Italian theatres usually accord him. He tries to promote improvements in musical education, and to instil a sense of pride in Italian culture. Small wonder he has been dubbed *Riccardo, cuor di leone* (Richard the Lionheart).

But Muti has less influence than is commonly thought. La Scala's financial and industrial problems are as intractable today as they were when he arrived, and his critics say he has done little to address them. "Even when his own orchestra goes on strike, he only talks in generalities, taking positions that won't harm him personally," says one critic. "He is powerless beyond the productions he conducts."

Abbado encountered the same problem in the early 1980s, and left Milan in frustration. But Muti has nowhere else to go. The festival which he and his wife run at Ravenna lasts only four weeks in summer. The Vienna Philharmonic is limited to a handful of tours and subscription programmes each season, and cannot give them all to one conductor. Muti's Philharmonia and Philadelphia years showed him to be a musician who needs to be building something. In Milan, he has poured his energy into improving the orchestra.

He clearly enjoys the figurehead status he has achieved in Italian musical life. "He's an Italian to his fingertips," says Clive Ibbott, a British cellist in the Filarmonica della Scala. "He likes being the star. Even in a performance, if a singer takes liberties, he goes mad and makes signs to them, pounding his fist on his chest. That's very Italian."

Other members of the orchestra complain that Muti shows little faith in what his musicians have to give. "The grip has to be total," says one of Ibbott's Italian colleagues. "With Giulini, you have the impression he has everything in hand, but he leaves you space, and you respond in a positive way. With Muti, it's as if you're being spoon-fed in a kindergarten. It squashes creativity. You wonder why he has to have this grip. Behind the aura of self-assurance there's a lot of insecurity."

Foreign orchestras see a more relaxed personality. Muti is renowned for his use of *solfeggio* in rehearsal, singing his way through a rapid scale of demi-semiquavers to demonstrate a point – a legacy of the old-fashioned musical education he received in Naples. But his relationship with the Vienna Philharmonic goes beyond the sphere of music: it is an alliance of common interests, enabling them to form a bulwark against Abbado and the Berlin Philharmonic on one side, and Gérard Mortier's programme of reform in Salzburg on the other.

Muti, who has a longstanding rivalry with Abbado, no longer conducts the Berlin orchestra, and it is only at the Vienna Philharmonic's insistence that he has been given two concerts at this summer's Salzburg festival. Like the Viennese, Muti has a conservative agenda. "Conductors have for too long subordinated themselves to the wishes of singers and producers," he says. "Opera production begins with the conductor, who should bring together the singers and stage director who can realise his conception."

This explains why most of the productions Muti conducts in Milan are so unimaginatively staged. Because of the high musical quality, his policy is accepted. But in Salzburg, where Muti burst onto the scene in 1971 and still owns a house, it has exposed him to ridicule. "He seems a very intuitive person," says Mortier, who has clashed with Muti over production policy. "His idea of theatre is divorced from real life – it's as if he lives in a world where there is no tragedy."

Muti's romantic idealism is a legacy of his modest Neapolitan background. He describes music-making as "an act of love" – not the words of someone attuned to the sharp angles of 20th-century aesthetics. He is at his most vibrant in music with strong colours, smooth textures and clear lines – Verdi, Puccini, Respighi, Mozart, Mendelssohn. But even in repertoire where he is less sure of the style, such as Beethoven and Brahms, Muti stands out as one of those rare conductors who can make an orchestra surpass itself. That is why the Philharmonia is looking forward so much to his return.

Theatre

# In limbo in Bangalore

Mahesh Dattani apparently has a growing reputation as a playwright in his native India and *Bravely Fought The Queen*, the first overseas production of one of his plays (under the aegis of Michael Walling's Border Crossings Company), demonstrates that he is a skilful-enough writer to do without the presentational gimmickry which too frequently detracts in this staging.

The play is set in present-day Bangalore, where sisters Dolly and Alka await the return of their husbands from their struggling ad agency. Husbands Jiten and Nitin are also brothers and their bedridden and demented mother Baa lives upstairs in the house; an absent brother and daughter propel events as much as the characters on stage. The witnesses to these increasingly tragic entanglements are the brothers' sole employee and his wife.

Act One, *Women*, is largely a comedy of manners played between glacial elder sister Dolly (a nicely restrained Siddiqua Akhtar), mischievous dipsomaniac Alka and their unexpected visitor, the skittish, ill-at-ease Lalitha. In the second act, Jiten is revealed as a violent lecher whose approach to business is a combination of brainless obstinacy and clumsy scams. Jiten's character is the most one-dimensionally written, and not helped by Harmage Singh Kalirai's performance. Dhirendra's first chance to establish Nitin as a full character comes after the interval, when the burden of his status as Baa's favourite is revealed along with a slew of other family secrets.

Nattani follows a standard dramatic formula with more than a hint of *Who's Afraid of Virginia Woolf?*, but adroitly cuts between "normal" family tensions, Baa's ever more feverish delusions and the desperately concealed truths. It is a fine piece of writing, but this production's staging throws in several additional elements: the peripheral playing area is used both as all-purpose exterior and as a kind of limbo through which characters process and exercise traditional Indian dance movements; a video monitor displays act titles and extreme close-ups of various anatomical regions, rain falling upon a Buddha statue and apparently random scenes from historical movies.

These touches seem intended to illustrate the general situation of both Baa's family and the culture of this social group, poised between heritage and modernity, but primarily they end up distracting attention from the drama itself.

**Ian Shuttleworth**

At Battersea Arts Centre, London SW11, until April 28 (0171 223 2223).

# INTERNATIONAL ARTS GUIDE

## ■ BARCELONA

CONCERT
**Palau de la Música Catalana** Tel: 34-3-2681000
● Die Jahreszeiten: by Haydn. Performed by the Mitteldeutscher Rundfunk Kammer Philharmonie and the Orfeó Català, conducted by Günther Theuring. Soloists include soprano Petra Maria Schnitzer, tenor Christian Bauer and bass Marcos Fink; 9pm; Apr 16

## ■ BERLIN

CONCERT
**Konzerthaus** Tel: 49-30-203090
● Philharmonie der Nationen: with conductor/pianist Justus Frantz perform Mozart's Piano Concerto in E flat, K482, the overture to Le Nozze di Figaro and Brahms' Symphony No.2; 8pm; Apr 17
**Philharmonie & Kammermusiksaal** Tel: 49-30-2614383
● The Chamber Orchestra of Europe: with conductor Nikolaus Harnoncourt perform works by Beethoven, Haydn and Mozart; 8pm; Apr 17

DANCE
**Deutsche Oper Berlin** Tel: 49-30-3438401
● Tokyo Ballet: perform George Balanchine's Theme und Variations to music by Tchaikovsky, Jiri Kylian's Stepping Stones to music by Cage, Marius Petipa's Paquita to music by Minkus and Maurice Béjart's Bolero to music by Ravel; 7.30pm; Apr 17, 18, 19
OPERA
**Komische Oper** Tel: 49-30-202600
● Falstaff: by Verdi. Conducted by Yakov Kreizberg and performed by the Komische Oper. Soloists include Sabine Passow, Vera Baniewicz, Victor Braun and Christiane Oertel; 7pm; Apr 16

## ■ BIRMINGHAM

CONCERT
**Symphony Hall** Tel: 44-121-2123333
● The City of Birmingham Symphony Orchestra: with conductor Libor Pesek perform works by R. Strauss and Dvorák; 7.30pm; Apr 16, 18

## ■ BONN

OPERA
**Oper der Stadt Bonn** Tel: 49-228-7281
● Carmen: by Bizet. Conducted by Eugene Kohn and performed by the Oper Bonn. Soloists include Ingle, Bartz, P. Naviglio, G. Naviglio and Telese; 8pm; Apr 17

## ■ CHICAGO

DANCE
**Shubert Theater** Tel: 1-312-977-1700
● Dido & Aeneas: a choreography by Mark Morris to music by Purcell, performed by the Mark Morris Dance Group and the Boston Baroque, conducted by Martin Pearlman. Mark Morris performs the two lead female parts, Dido and the Sorceress. Vocalists include sopranos Dana Hanchard and Christine Brandes, mezzo-soprano Jennifer Lane and baritone James Maddalena; 7pm; Apr 16, 17 (7.30pm)

## ■ COPENHAGEN

OPERA
**Det Kongelige Teater** Tel: 45-33 14 10 02
● Saul and David: by Nielsen. Conducted by Poul Joergensen and performed by the Royal Danish Opera. Soloists include Aage Haugland, Kurt Westi, Poul Elming and Majken Bjerno; 8pm; Apr 16, 18

## ■ GOTHENBURG

OPERA
**Göteborgs Operan** Tel: 46-31-108000
● Carmen: performance of Bizet's opera Carmen in Swedish by the Gothenburg Opera, conducted by Inge Fabricius. Soloists include Ulrika Tenstam, Jan Kyhle, Anders Larsson and Linda Tuvas; 7.30pm; Apr 16, 18, 20 (6pm)

## ■ LAUSANNE

CONCERT
**Théâtre de Beaulieu** Tel: 41-21-6432211
● Finnish Radio Symphony Orchestra: with conductor Jukka Pekka Saraste perform works by Debussy and Sibelius; 8.15pm; Apr 18

## ■ LISBON

CONCERT
**Grande Auditório da Fundação Gulbenkian** Tel: 351-1-7935131
● Max Rabinovitch and Elizabeth Allen: the violinist and the pianist perform works by Mozart, Loshin, Ives and R. Schumann; 6.30pm; Apr 16

## ■ LONDON

CONCERT
**Barbican Hall** Tel: 44-171-6388891
● The London Symphony Orchestra: with conductor Michael Tilson Thomas and pianist Barry Douglas perform works by Holloway and Beethoven; 7.30pm; Apr 16
**Queen Elizabeth Hall** Tel: 44-171-9604242
● Acis and Galatea: by Handel. Performed by The English Concert and the choir of The English Concert, conducted by Trevor Pinnock. Soloists include Barbara Bonney, Hans Peter Blochwitz, Rufus Müller and Jeremy White; 7.45pm; Apr 17
**Royal Festival Hall** Tel: 44-171-9604242
● The London Philharmonic: with conductor Wolfgang Sawallisch, violinist Frank Peter Zimmerman and cellist Heinrich Schiff perform works by Brahms and Beethoven; 7.30pm; Apr 16
**St. John's, Smith Square** Tel: 44-171-2221061
● Patricia Rozario, Jean Rigby, Jamie MacDougall, Nigel Cliffe, Clare Toomer and Paul Turner: the soprano, mezzo-soprano, tenor, baritone and pianists perform works by Haydn, Beethoven, Wolf and Brahms; 7.30pm; Apr 16

## ■ LOS ANGELES

EXHIBITION
**Huntington Library, Art Collection and Botanical Gardens** Tel: 1-818-405-2100
● Images of Annihilation: Ruins in Civil War America: the aesthetic and cultural usages of ruin imagery are examined in this exhibit of approximately 40 objects, including etchings, engravings, photographs and drawings, produced throughout the 1860s in response to the Civil War; from Apr 16 to Jun 30

## ■ MOSCOW

EXHIBITION
**State Pushkin Museum** Tel: 7-095-2036974
● The Treasure of Troy: exhibition of some 260 gold and silver objects, excavated by the German archeologist Heinrich Schliemann in Turkey in 1873; from Apr 16

## ■ NEW YORK

CONCERT
**Avery Fisher Hall** Tel: 1-212-875-5030
● New York Philharmonic: with conductor Valery Gergiev and violinist Glenn Dicterow perform works by Rimsky-Korsakov, Chausson, Ravel and Prokofiev; 7.30pm; Apr 16
**Carnegie Hall** Tel: 1-212-247-7800
● Dresden Staatskapelle: with conductor Giuseppe Sinopoli and soprano Cheryl Studer perform R. Strauss' Don Juan, Op.20, Four Last Songs and Ein Heldenleben, Op.40; 8pm; Apr 16

## ■ PARIS

CONCERT
**Salle Pleyel** Tel: 33-1 45 61 53 00
● Orchestre Symphonique Français: with conductor Octav Calleya and pianist Dominique Merlet perform works by Mestral, Mozart and Schubert; 8.30pm; Apr 16
**Théâtre des Champs-Elysées** Tel: 33-1 49 52 50 50
● Ensemble Wien-Berlin: perform works by Ibert, Debussy, Milhaud, Ravel, Jolivet and Françaix; 8.30pm; Apr 16

## ■ ROME

OPERA
**Teatro dell' Opera di Roma** Tel: 39-6-481601
● Fidelio: by Beethoven. Conducted by Zoltan Pesko and performed by the Opera di Roma. Soloists include Susan Anthony, Alan Titus, Jan Blinkhoff and Joseph Kundlak; 8.30pm; Apr 16, 19, 21 (4pm)

## ■ VIENNA

OPERA
**Wiener Staatsoper** Tel: 43-1-514442960
● Das Rheingold: by Wagner. Conducted by Donald Runnicles and performed by the Wiener Staatsoper. Soloists include Margareta Hintermeier, Adrianne Pieczonka, James Morris and Siegfried Jerusalem; 7pm; Apr 16

**WORLD SERVICE**
BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**
(Central European Time)

MONDAY TO FRIDAY

NBC/Super Channel:

07.00
*FT Business Morning*

10.00
*European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
*Financial Times Business Tonight*

CNBC:

09.00
*Squawk Box*

10.00
*European Money Wheel*

18.00
*Financial Times Business Tonight*

## Michael Prowse • America

# Inflation redux

**Bond investors fear that a fully-employed US economy is poorly placed to resist the inflationary impact of faster growth and surging food and energy prices**

A new fear is stalking Wall Street: that after numerous false alarms potentially serious inflationary pressures are now building in the US economy. The worry about inflation, and allied fears that economic growth is accelerating rapidly, have sent bond yields soaring. Until recently, the stock market was able to shake off the negative drag from bonds. But after a week of falling share prices, broken only by a modest rally on Friday, some analysts are darkly warning that one of the most glorious bull markets in history is in its terminal stages.

The mood swing has been violent. A couple of months ago, bond investors feared the US economy was on the edge of recession. Inflation was dismissed as a problem of the 1980s. Long yields had dropped to 6 per cent and shorter-dated Treasury securities were discounting a substantial cut in short-term interest rates to about 4.5 per cent by the summer. Those fond hopes now look ludicrous. Long yields have risen nearly a percentage point and the market has priced in one – or perhaps two - increases in short-term interest rates.

The bond market, to put it mildly, has been volatile in the past two years. But its movements are of the greatest significance: the collective wisdom embodied in market prices far exceeds that available to any central bank, however well staffed.

Mr David Resler, chief economist at Nomura Securities in New York, points out that the market has anticipated every significant change in US monetary policy since Mr Alan Greenspan took over as Federal Reserve chairman in the late 1980s. Yields, for example, began rising in late 1993 before the Fed raised short-term rates early in 1994. And yields began falling well before the Fed eased policy in 1995.

Yields are climbing as a rational response to changes in economic data. Last week, the biggest worries centred on sharp increases in commodity prices. Grain and oil seed prices have soared about 65 per cent in the past year. Natural gas prices, while below winter peaks, are up about 40 per cent. Oil prices have risen about a third to $24 a barrel, although they are widely expected to subside later this year.

The food and energy components of price indices are admittedly erratic. And it is not difficult to find "special factors" that account for most of the commodity price gains: the drought in the US midwest, for example, helps explain why grain prices have gone through the roof. Even so, it would be foolish to dismiss the information in commodity prices.

Mr William Brown, chief economist at J.P. Morgan, the New York bank, points out that increases in general price inflation have nearly always been preceded by accelerating food and energy prices. This happened in the 1960s, 1970s and 1980s. The bank reckons increases in commodity prices will raise costs for US business by about $52bn this year (about 0.75 per cent of national income). Even assuming companies absorb a good deal of the cost increase, this is likely to raise consumer price inflation by half a percentage point to about 3.5 per cent, he thinks. The final effect could be greater if higher costs prompt higher wage demands.

It is surely no accident that these commodity price pressures are emerging following a global loosening of monetary policy last year. Europe may still be sluggish, but Japan – a potentially huge source of demand – is shifting into expansion after a lengthy slump. And the US, far from being on the edge of recession, has staged an impressive economic recovery since Christmas.

The first quarter, you may recall, was expected to be as bad, if not worse, than the final quarter of last year when gross domestic product grew less than 1 per cent at an annual rate. It no longer looks that way. On Friday, the Commerce Department released some remarkable retail sales figures. The relevant point was not the unimpressive 0.1 per cent increase for March but the huge revision for February, to show a monthly gain of 1.9 per cent rather than 0.8 per cent. The data suggest real consumer spending rose at an annual rate of about 3.5 per cent in the first quarter, against 1.2 per cent in the final period of last year. That is scarcely weak.

Spending is up because employment and personal incomes are growing solidly again, and because last year's drop in bond yields allowed home owners to refinance mortgages on more favourable terms and obtain cheaper car loans. The most startling statistic of the quarter was the 624,000 increase in payroll employment in February – the largest monthly gain in 12 years. This prompted an instant rethinking of economic assumptions in the bond market. The March gain of 140,000 was nearly as significant as it confirmed that the employment tide really had turned. Monthly job growth averaged 206,000 in the first quarter, a 50 per cent increase from the second half last year.

Given the recovery that has already occurred in the car and housing markets, Mr Brown at J.P. Morgan believes a period of above-trend economic growth is now all but inevitable. He projects real gross domestic product growth at an annual rate of about 3.5 per cent from April to September, following a solid 2.5 per cent in the first quarter.

If growth does prove this robust, inflation fears are likely to intensify because the jobless rate would fall below 5.5 per cent. The carnage in bond markets would intensify as long yields would probably rise above 7 per cent. And the Fed, anxious to reaffirm its anti-inflation credentials, would almost certainly nudge short-term interest rates higher – just as it nudged rates down last year when growth dropped below trend.

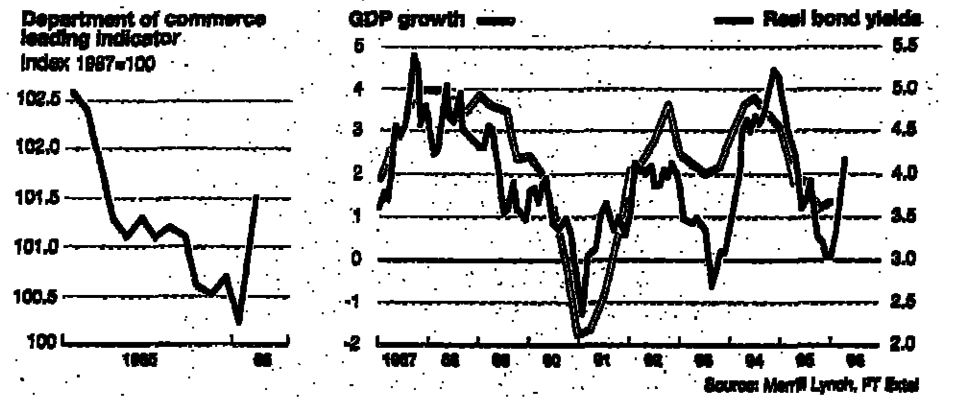
For now, such a forecast remains speculative. Most analysts expect a moderately strong second quarter, but few believe the economy will grow at an annual rate of more than 2 to 2.5 per cent in the second half. The majority view among economists (if not bond traders) is that the jump in commodity prices is sending a misleading signal: underlying inflationary pressures remain firmly in check. The rise in bond yields, they emphasise, will automatically choke off growth, as it has done on previous occasions.

The Fed, recognising the bond market's role as a regulator of the economy, is most unlikely to take early action. It will almost certainly sit tight at its policy meeting in May; indeed, the economy's vitality in the second quarter – and the associated upward pressure on inflation – will be hard to judge much before July. "We do not see a big problem on inflation right now," Mr Frederic Mishkin, director of research at the New York Fed, told me last week. "But we're somewhere near full employment, so we have to remain vigilant."

But he voiced some irritation at recent claims that a more relaxed Fed stance was now feasible, on the grounds that the US jobless rate consistent with stable inflation – the so-called Nairu – has fallen from about 6 per cent (the traditional estimate) to perhaps 5 per cent. "If the range of estimates for the Nairu was 5-7 per cent, we would not shoot for the bottom," he said, "because that would give a bias toward inflation."

Mr Mishkin's remarks suggest the Fed would get extremely nervous if the jobless rate were to fall much below current levels, as will happen if growth stays strong. As in 1994 its likely strategy will be to launch a pre-emptive strike against inflation, rather than wait passively until the economy is gripped by a wage-price spiral.

**Bond yields anticipate faster growth and inflation**




# The strains of economic success

**Vietnam is having problems reconciling free markets and communism, says Jeremy Grant**

At a modish boutique in central Hanoi, Swatch of Switzerland has been selling 20 of its $90 (£60) plastic watches a day since it opened for business a week ago. Its customers are the new rich of Vietnam, entrepreneurs with dollars to spare in a city where the average wage is $42 a month.

The buyers include people like the Vietnamese businessman in Ho Chi Minh City who has recently added a $400,000 Rolls-Royce to his fleet of Mercedes cars.

The day after Swatch started doing business, Vietnam's ruling Communist party issued a report on the past decade of market-led economic reforms, slamming "illegal fortune-making" and "the cult of money". In the report, to be presented to its eighth congress in June, the party also unveiled its vision for the next five years.

Page after page dealt with economic successes, such as cutting inflation to 13 per cent last year from 300 per cent a decade ago, and the achievement of average gross domestic product growth of 8.2 per cent since 1991.

Mr Hong Ha, secretary of the party central committee, declared that the country had "come out of the socio-economic crisis", a reference to decades of dependence on aid from the Soviet Union, poverty and virtual international pariah status. The document also dealt with the party's failure to address social deprivation and increasing corruption.

But most attention was focused on where future growth would come from. It was not, as many foreign observers had hoped, from the private sector. "Economic renewal and the building of a multi-sector commodity economy operating along the market mechanism must be accompanied by the strengthening of the role of state management along the socialist line," the report said. The aim, it added, was not to allow Vietnam to "deviate on to the capitalist path".

The language of Vietnam's vision of the next stage of its economic reforms may be difficult for foreign economists to digest. But it shows the increasing problem the leadership faces in reconciling market economics and communist ideology. There is considerable discomfort among communists over private business and the notion of "exploitation".

Questions are being raised, for example, about whether it is right for party members to engage in private enterprise. "What about party members' wives and sons?" asked one Vietnamese journalist at a news conference called to announce the agenda for the congress.

The news that the state sector is to be promoted may disappoint Vietnam's entrepreneurs, who run some 25,000 private businesses in every sector from banking to textile manufacturing. For years, they have complained that state companies have unfair access to cheap credit.

The state sector's share of the economy, already at an unwieldy 40 per cent of GDP, is set to rise to 60 per cent of GDP, according to the report. Among the key areas reserved for the state are insurance, trading, and infrastructure.

"Can you have rapid industrialisation with the state sector doing the job?" asks one foreign economist. "No other country has managed it. They haven't figured out that growth has to be export-based."

> It is not clear if it is right for party members to engage in private enterprise. 'What about party members' wives and sons?' asks one Vietnamese

[redacted]

Others argue that the government is right to try to exert some control over the direction of Vietnam's fast-growing economy. The gap between the urban rich and the poor in rural areas, where 80 per cent of the population lives, has been widening rapidly. A report last year by the Vietnamese government and the World Bank found that 51 per cent of the population lives below the poverty line.

But Vietnam does not have the luxury of time to see whether the course it has mapped out will work. The country is committed to wide-ranging tariff reductions in 2003 as part of the proposed free trade area being established by the Association of South East Asian Nations (Asean). The state sector is already facing fierce competition from industries in southern China.

Impressive though foreign investment figures may be – at $19bn committed so far – only about a quarter of this sum has actually been absorbed. Yet Hanoi says it needs $41bn in investment up to the year 2000.

For some, Vietnam's successes in the last 10 years are at the root of its current problems. High economic growth has blinded the government to the failings of the state sector. "The fundamental question is: How determined will they be to make changes, particularly as they face choices down the road?" says one European diplomat. "When you're in crisis, you're more pragmatic. The problem is, there is no crisis."

In the meantime, there are likely to be more Vietnamese businessmen driving Rolls-Royce cars and more people buying Swiss watches. And they will be more concerned with delivering the next shipment of their products to foreign markets or the shop windows of Hanoi than with whether state companies are meeting their official production targets.



# ·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

## Many US job creation policies aimed at combating inequality

*From Mr Joseph E. Stiglitz.*

Sir, Professor Christopher Pissarides's letter ("Equality is sacrificed in US job creation", April 10) correctly highlights the continuing challenge of income inequality in the US.

But he is wrong to imply that we nonchalantly tolerate it. Many of the Clinton administration's policies – such as the earned income tax credit, the new direct college lending programme, and the school-to-work initiative – are intended to combat inequality.

Professor Pissarides makes several other spurious claims.

First, the data I mentioned in Lille (and which will soon be published in a report from the Council of Economic Advisers) describe *net* job creation, not gross job creation. In other words, even after accounting for job destruction, the US economy is creating a disproportionately large number of jobs in high-paying occupations and industry groupings.

Second, the specific examples Professor Pissarides cites – grocery baggers and windscreen wipers – are as misleading as previous assertions about hamburger flippers.

Reliable data on grocery baggers are unavailable, but overall employment in grocery stores has risen relatively slowly in recent years. The cause is probably a series of labour-saving innovations. In 1990, 38 per cent of supermarkets had self-service delicatessens and 71 per cent had scanning checkouts. By 1993, those percentages had risen to 50 and 85 per cent respectively. And according to unpublished data from the Bureau of Labor Statistics, employment of service station attendants fell by a staggering 45 per cent between 1988 and 1994.

This fall in employment was accompanied by – and undoubtedly caused by – a dramatic rise in self-service. By 1993, 88 per cent of gasoline sales were self-service, up from 55 per cent in 1980.

We Americans are not afraid to get our hands dirty, especially when it comes to examining actual data rather than making groundless assertions.

Joseph E. Stiglitz,
chairman,
Council of Economic Advisers,
Executive Office of the President,
Washington DC 20500,
US

## A geared play that has ended up going nowhere

*From Mr Brian Marber.*

Sir, I can read markets but know I know nothing about shares. Last year, believing that Tokyo was about to start a bull market, I made two purchases of Schroder Warrant Fund as a geared play, relying on Schroders much-vaunted Far East expertise.

My average purchase price was $0.645, a premium of only 8.95 per cent on the $0.592 adjusted net asset value (NAV), little enough to pay for the privilege of latching on to such expertise. The Topix Index was then 1304.90, adjusted for different purchase dates and the unequal sums invested.

My confidence in Topix was not misplaced. At April 3 Tokyo close, it had risen to 1,645.59, a 26.11 per cent gain. Meanwhile, Schroder Warrant Fund's NAV had risen to $0.79, a gain of 33.45 per cent.

What about the premium over NAV that this out-performance surely warranted? What premium? The current dealing price is $0.60-$0.75 and the paper loss on my 0.645 purchase price, 6.98 per cent. At the current rate of attrition, when Topix reaches the 2,524 I was, and am still, expecting this year or next, my investment will be practically worthless.

What else is it necessary to do in order to obtain a good return, apart from picking the right market and a well-established management company? Can anybody tell me what I did wrong and how I might improve on this investment performance record in the future?

Brian Marber,
Hoppingwood Farm,
Robin Hood Way,
London SW20 0AB, UK

## Poor basis for investment

*From Mr Peter J. Groves.*

Sir, So Rover aims to "create a business in which premium-positioned cars are sold through premium outlets seeking lifetime relationships with customers" (Rover to shed dealers", April 11).

Will Rover, in turn, seek to establish lifetime relationships with dealers? Or will it give only the minimum security EU law demands, namely either two years' notice or a five-year fixed term agreement? Neither is much of a basis on which to make a £2m investment.

Peter J. Groves,
5 Limetrees,
Chilton, Oxon OX11 0HW,
UK

## Complex labour standards must not thwart trade liberalisation

*From Prof Bishnodat Persaud.*

Sir, Martin Wolf, in his well argued case against international labour standards ("Disappointment assured" April 2), is to be commended for his unrelenting efforts in the very worthwhile pursuit of enhancement of the international trade liberalisation process.

In his article, he is concerned that the process is not jeopardised by the introduction of issues in the World Trade Organisation such as labour and environmental standards which will encourage restrictions to trade.

In this connection, the UK, Japan, Germany and Canada deserve louder praise than they have received for resisting pressures from France and the US at the recent G7 Meeting to call for labour standards to be put on the agenda of the WTO meeting in Singapore in December.

Issues such as labour and environmental standards, although largely domestic concerns, are important enough in human rights terms in the case of the former and global damage terms in the case of the latter (use of ozone depleting substances) to deserve international action. But they are complex issues politically and technically, and deserve prior attention in specialised international organisations such as the International Labour Organisation or United Nations Environment Programme or the UN Commission on Sustainable Development.

Only when these issues become of great significance globally – for example, ozone depletion – should the question of the use of trade sanctions arise. This would require, however, closer co-operation between the relevant international organisation and the WTO, and not a concentration of concern at the WTO which already has a loaded agenda.

The Uruguay Round has cleared the way for an enhanced process of trade liberalisation with arrangements to tackle previously intractable issues such as agriculture, textiles and services.

Trade liberalisation is too important an issue for the WTO at this its formative stage to be made confused, cumbersome and over-politicised with matters that deserve prior attention in other places.

Bishnodat Persaud,
director,
centre for environment and development,
University of the West Indies,
3 Gibraltar Camp Road,
Mona, Kingston 7,
Jamaica

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Monday April 15 1996

# Reshaping the car industry

The pace of integration in the world motor industry is speeding up. One indicator is last week's acquisition by Ford of the US of effective control of Mazda, Japan's fifth largest carmaker. Another is the plan agreed by the US and European car industries to try to harmonise standards and certification procedures on either side of the Atlantic.

As well as strengthening Ford's bridgehead in Japan, the deal with Mazda should enable both companies to achieve savings by designing and sourcing more components in common. Ford is already restructuring its operations worldwide, so as to cut costs by reducing product complexity. Mazda, as a struggling second-tier producer, squeezed by high costs and heavy dependence on a weak home market, badly needs similar efficiencies, but has been unable to obtain them on its own.

The same logic lies behind the transatlantic harmonisation effort. Industry standards in the US and EU are riddled with differences. Individually, many are trivial, but cumulatively they create costly obstacles. Removing them is likely to be a lengthy process, particularly when, as with emission standards, the differences are enshrined in legislation. But there are powerful incentives to try. As well as reducing the cost of assembling cars – by as much as 10 per cent, according to one estimate – harmonisation would yield improved scale economies for components suppliers.

Until recently, inter-continental industry collaboration on standards would have seemed as unlikely as would a Japanese company welcoming a rescue by a foreign investor. European carmakers, indeed, long regarded standards as a means of erecting barriers against other, chiefly Japanese, producers. The change in attitudes says much about the strength of the pressures now confronting the industry worldwide.

## Deeper roots

New competitors are multiplying, notably in Asia, where many countries are building or expanding facilities aimed largely at export markets. Producers in the EU and Japan, meanwhile, are burdened by chronic over-capacity, which they have been slow to trim. Though due partly to a cyclical weakness of demand, the problem may have deeper roots. There is growing evidence in Europe that even affluent consumers are reluctant to purchase new cars because they consider them overpriced. A permanent cut in prices may be needed to restore traditional buying patterns.

## Closed market

Surviving these upheavals will require more radical solutions than closer industry collaboration can offer. The structural imbalance in the industry will be corrected only if weaker producers leave the market or are acquired by stronger competitors able drastically to rationalise capacity. Neither option is painless. Closing car companies involves big job losses, while the record of large-scale amalgamations in the industry is not inspiring: the failed Renault-Volvo merger underlines the challenge of integrating different management cultures.

But the biggest obstacle to rationalisation is the tendency in most countries to regard carmaking as a strategic industry, closely identified with national sovereignty. Such thinking has perpetuated policies, notably subsidies and trade protection, intended to safeguard the independence of leading producers. It also encouraged Washington last year to take up the cudgels against Japan, on behalf of Detroit's supposedly global manufacturers.

In practice, such policies rarely achieve their intended results – and can be counter-productive. For all the US threats and bluster, Japan conceded little in the cars dispute. EU quotas on Japanese cars have blunted the incentive for European producers to adjust to the competition they will need to face after their market is opened in 1999. Korea's closed market has led to increasingly risky duplication of capacity, from which it may be hard to earn profits in the future. Yet the urge persists, almost everywhere, to wrap car manufacturers in national flags. The longer it does so, the harder will be the task of transforming the industry into a business with a truly global structure – and efficiency to match.

# MMC blows its circuits

The Monopolies and Mergers Commission appears on the verge of making one of the most misguided and damaging recommendations of its history. According to a leaked draft report, it is about to give the go-ahead to a dramatic consolidation of the electricity industry. If the leak is correct, the MMC would appear to have employed thoroughly incoherent arguments, derived from a profound misconception of the aims of competition policy.

The approach apparently contained in this report raises serious questions about the MMC's role and aims. It is almost never desirable for politicians to overturn MMC decisions. But in this case, it would seem justified.

The leaked draft suggests the MMC has given its conditional blessing to PowerGen's £1.95bn bid for Midland Electric, and to National Power's £2.8bn bid for Southern Electric. It believes the bids could act against the public interest, but that the imposition of three conditions, including enhanced powers for the regulator, addresses that fear. One of the benefits of allowing the takeovers to proceed, the report apparently argues, is that the companies will be better equipped to compete internationally.

The MMC is correct on one point: its recognition that the takeovers could threaten the public interest. Electricity is of paramount importance; its price affects every business and individual in the UK. Unlike most previous takeovers of regional electricity companies, the two bids would reintegrate a large chunk of the UK's generating capacity with the monopoly businesses of regional distribution. There is a risk that this could push up prices for all users.

## Opposite result

In other respects, the MMC seems misguided. The conditions it appears to have imposed seem inadequate, similar to those applied to less controversial electricity takeovers and difficult to enforce. The five-member panel – with one vigorously dissenting exception – too blithely assumes that more regulation will compensate for less competition.

In any case, reducing competition and increasing regulation is a blunt contradiction of the aims of the UK's privatisation programme, which has struggled to achieve precisely the opposite result. The regulator himself has indicated that he wants these deals blocked.

Perhaps the most depressing aspect of the leaks is the MMC's apparent belief that such deals improve international competitiveness. Shielding companies from competition at home is most unlikely to help them abroad. More importantly, there is no place in competition policy for this view, which puts the interests of a few big companies above those of millions of consumers.

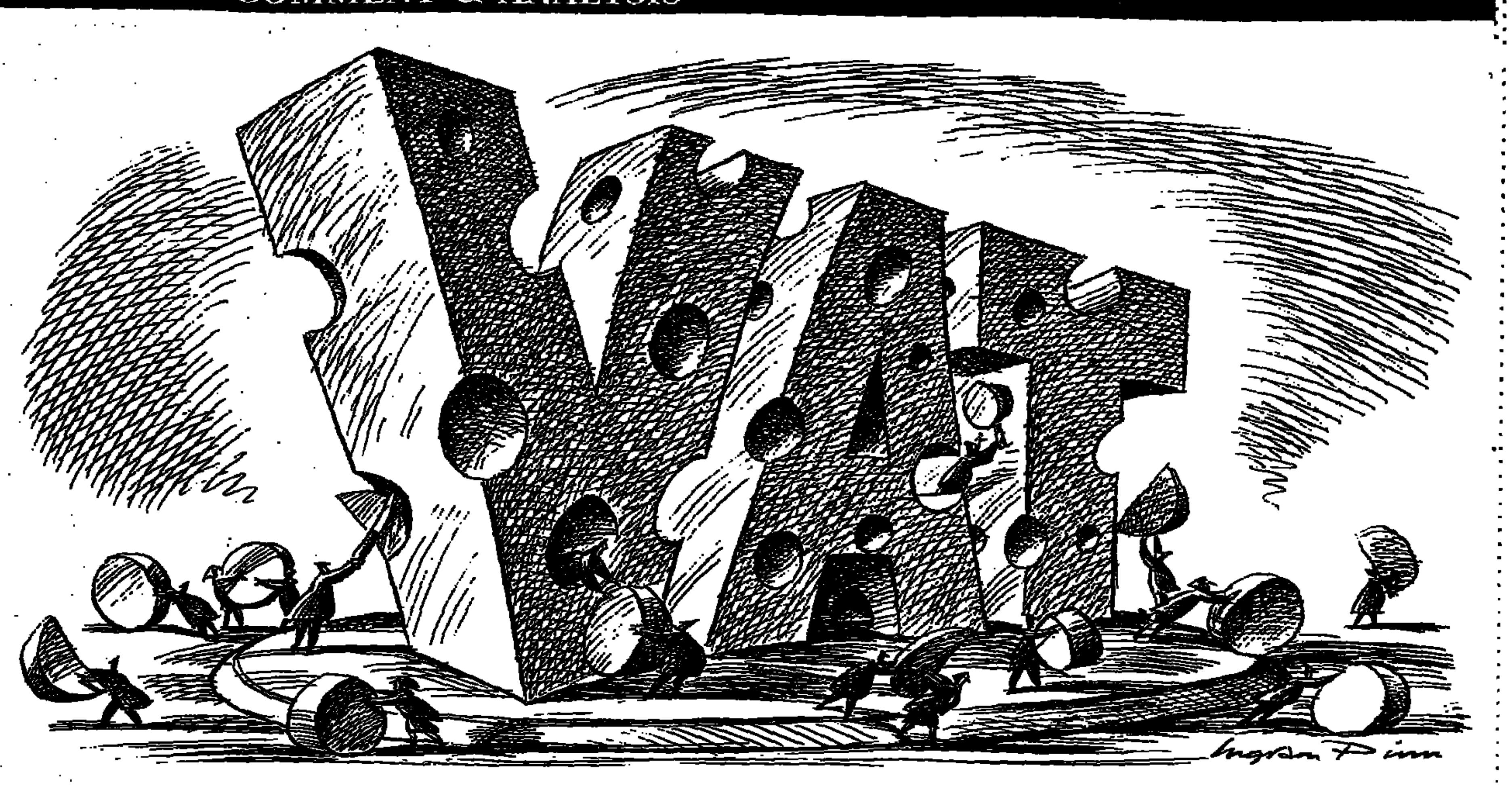
## Dubious attitudes

Mr Ian Lang, trade and industry secretary, now studying the report, has the right to overturn its recommendations. In general, such politicisation of MMC rulings is highly undesirable. Politicians are prone to favour "national champions" over the benefits of more competition. But in this instance, it appears that the MMC has adopted those same dubious attitudes. If the final, published version of the report does indeed recommend that the bids proceed, Mr Lang would be justified in rejecting it.

However, if he does so, he should at the same time initiate a thorough review of the MMC itself. The report illuminates the extent to which the role and aims of the commission have become obscured.

In future, the principles of competition policy should be set out clearly. Precedents should play a part in shaping future recommendations. Panels should be made up of members equipped to assess the public policy issues, which may turn on complex economic points, and to distinguish clearly between the public interest and corporate ambition.

If the leaks prove an accurate reflection of the MMC's thinking, urgent remedy is needed. A competition watchdog so confused about the notion of public interest, the value of greater competition, and the basis of international competitiveness, would be inimical to the interests of the UK economy.




# A nibble out of the tax base

## The fall in VAT revenues is baffling UK Treasury officials and reducing the chancellor's scope for cutting tax, say **Gillian Tett** and **Jim Kelly**

The UK public-sector borrowing figures for March due this week are likely to give the government two reasons for concern. The first is that they are expected to confirm the trend towards higher-than-expected borrowing for the 1995-96 year.

The total is likely to have been about £3bn higher than the Treasury forecast last November – and some £10bn higher than planned 18 months ago. This will reduce the chancellor's scope to unveil the large tax cuts that many Conservatives believe are essential to win the next general election.

The second cause for concern is that the increase in borrowing is largely caused by a shortfall in tax revenues, which have fallen well below expectations in the past two years – for reasons that government economists are at a loss to explain.

As one Treasury official says: "The fact is we simply don't quite understand what is happening at the moment."

The chief culprit appears to be a fall in revenue from value added tax (VAT). Income tax in the 1995-96 year was generally in line with recent budget projections, and the yield of corporation tax was only slightly below expectation.

But VAT revenue – at about £43bn – is likely to be £6bn lower than the projections made 18 months ago, and £1bn lower than the Treasury's forecast last November. Significantly, £6bn is the cost of reducing the basic rate of income tax from 24 per cent to the government's target of 20 per cent.

But although these sums highlight the culprit, there are no obvious explanations why VAT revenues have underperformed.

One explanation might be slower growth. The French and Belgian governments are already blaming this for shortfalls in their tax revenue.

But the striking factor in the UK is that revenues have been even lower than expected after making allowance for weaker growth. Consumer spending, in other words, does not seem to be yielding the expected level of tax.

This might imply that the distribution of spending has changed. If consumers are spending more in the black economy or on goods on which lower tax is levied – such as tickets for the National Lottery – VAT revenue will fall. But the Treasury believes that the £6bn shortfall is far larger than can plausibly be explained by such shifts.

Official analysis shows that VAT revenues have been growing more slowly than sales of goods attracting VAT from the early 1990s. This may possibly reflect changes in the way that shops hold goods: Customs and Excise, the Whitehall department which collects VAT, recently suggested that stock-building by retailers and manufacturers might have reduced revenues, since companies do not pay tax until they have sold goods.

But the shortfalls were emerging even before the excess stock problem. So the growing suspicion is that the discrepancy has another cause – an increase in efforts by companies to reduce their VAT bills by exploiting legal loopholes.

Calculating the level of such tax avoidance is always difficult, since hard data is lacking. Customs and Excise estimates that VAT avoidance by large companies costs about £500m a year. But other observers think the figure is far higher – and there are signs that legal tax avoidance is rising.

One symptom is that avoidance schemes seem to be rising among self-employed workers. In hairdressing, for example, salons which previously operated as a single company, paying VAT, now "rent" chairs to self-employed hairdressers, who do not pay VAT unless their individual turnover is more than £47,000 a year.

But a greater cause for concern in government departments is the behaviour of the largest VAT payers – the 0.15 per cent of companies which provide some three-quarters of the revenue. They appear to be making much greater efforts to reduce their VAT bills, especially since the standard rate increased from 15 per cent to 17.5 per cent in 1991.

"Increasingly over the last 10 to 15 years people have begun to view tax as a cost to be managed," says Mr John Whiting, head of personal tax at Price Waterhouse, the accountants. "The stock market has begun to look at profit after tax rather than profit before."

However, the trend also reflects aggressive efforts by the accountancy firms to market VAT advice. The Big Six firms, which dominate the corporate tax advice market, have rapidly expanded their indirect tax practices in recent years. Income from this VAT advice to corporations has increased rapidly and now represents between 8 per cent and 15 per cent of the Big Six's revenue from tax work – in the region of £100m a year.

"Now most of the big firms have 30 to 60 specialists in the south-east and maybe 50 to 100 nationwide," says Mr Tony Lynne, a VAT partner with KPMG.

The accountants have found a ready source of VAT specialists among ex-tax officials who have left Customs and Excise as Whitehall has pursued greater efficiency. Of Price Waterhouse's eight VAT partners, for example, half are former government officials.

"These people are gamekeepers turned poachers," says one Big Six partner, "and they know what they're looking for."

Lawyers are also encouraging companies to challenge decisions about VAT in the courts – pointing out that winners can claim up to 20 years' back tax.

Customs and Excise claims it wins three out of four of court rulings, but the losses can be costly. Mr Peter Wyman, a tax expert with Coopers & Lybrand, says that a recent case resulted in a £200m rebate to a taxpayer: "And that is quite commonplace – you don't need too many of those to add up to a serious sum of money."

In the short term, some observers believe that VAT revenues could be improved by reducing the £47,000 turnover threshold at which VAT must be charged and tightening the more obvious tax loopholes.

However, a more fundamental problem for Customs and Excise is the nature of the British legal system. In most of the rest of Europe, the tax authorities levy VAT according to the *spirit* of the law. Under UK tax law, companies only have to pay VAT when it is specified by the letter of the law.

As Customs and Excise says: "UK businesses have a right to order their affairs to take advantage of tax systems. What businesses are doing to avoid VAT in the UK may be perfectly legal, even if it is not in the spirit of what parliament intended."

# Strategies for avoidance

When Edward Heath's government introduced value added tax in 1973 it appeared to be a model of simplicity. Now it is arguably the UK's most complex tax regime, offering a wide range of opportunities for astute taxpayers to minimise bills.

Customs and Excise, the collector of VAT, describes some of these strategies – which are legal – as tax avoidance. The Big Six accountancy firms have found advising companies on using the strategies a lucrative source of income, and call them mitigation. "Many of these schemes are simply good housekeeping rolled up in good planning," says Mr Mike Arnold, a VAT partner with Price Waterhouse.

One fertile area for tax avoidance is at the boundary between goods and services on which VAT is charged at the standard rate, and those zero-rated or exempt from VAT. Creative planning can significantly cut a corporate tax bill.

A good example is the mailshots by specialist mailing companies for banks and building societies. Standard-rate VAT is due on the components of mailshots – forms, envelopes and other stationery – and since banks and building societies are exempt from VAT, they cannot reclaim the tax. However, brochures, leaflets and reading materials are zero-rated, and if the package is characterised as such it can be zero-rated, providing a significant saving.

Less significant savings can be made by taking advantage of all the tax regulations and procedures. For example, most businesses ask employees to provide invoices when claiming expenses, and use these to recover VAT. But many do not realise they can recover it without the invoice – as long as they have other documentary proof.

Companies can also reorganise themselves to cut tax bills. A recent example involved a major business's company car scheme. Companies pay full VAT when they buy a fleet of new cars and cannot recover it later. In this case, it created a new company within its own VAT group – a network of related companies which do not have to pay VAT when transferring goods and services between them.

It ordered the cars from this new company and paid 90 per cent of the bill. The company was then moved outside the VAT group where it ordered the cars from a dealer. It had to pay VAT only on the remaining 10 per cent of the bill, saving several million pounds.

Customs and Excise is challenging the scheme in the courts and has moved to modify the law on VAT groups. It believes such schemes defy the spirit of the law. Some in the accountancy industry agree. "This is the kind of thing which makes some advisers think avoidance has gone too far," says one partner with a Big Six firm.

**Jim Kelly**

# · OBSERVER ·

## Coining it in Verona

■ Gatherings of European Union finance ministers and central bankers are increasingly liable to end in bursts of operatic exaggeration and tearful histrionics these days. For a change, the Ecofin meeting in Verona *began* with the theatre – in the form of a gala concert of Verdi, Puccini and Bellini staged in a gilded reconstruction of the original 18th century opera house.

As usual, the main action of the evening was not on stage, but in the ring of private boxes. Squeezing Britain's chancellor, Kenneth Clarke, and Eddie George, governor of the Bank of England, into the box between their German and Luxembourg counterparts was one of the more masterly touches the Italian hosts had orchestrated.

On one flank, the British were confronted with the Euro-goody-two-shoes of the Grand Duchy – currently the only EU country to fulfil all the criteria for membership of European monetary union. On the other played the cold economic logic of Theo Waigel and Hans Tietmeyer – the German finance minister and Bundsbank chief both bent on forcing a reluctant sterling into a new exchange rate mechanism.

But this was all pretty low brow stuff compared with the diplomatic parties of old. In 1822, Prince Metternich hosted a concert to celebrate the Congress of Nations, attended by the Austrian emperor, the Russian tsar, the King of the Two Sicilies, and sundry other royals. And apparently no one even mentioned a single currency.

## Jolly Jacques

■ Word of the hairshirt regime installed at the European Bank for Reconstruction and Development had clearly not reached Sofia as Bulgarian officials assembled at the weekend to welcome Jacques de Larosière and his wife off their flight from London.

Taking a scythe to costs in the wake of the flamboyant era of Jacques Attali, his predecessor, the EBRD president has insisted on bank staff flying economy class.

He believes in practising what he preaches, however, and makes a point of leading from the front by flying at the back. With the rest of the passengers safely herded on to waiting buses, the Bulgarian reception committee planted themselves firmly at the front of the plane. There was some confusion as de Larosière and his wife emerged via the rear steps.

## New labours

■ As African National Congress secretary-general Cyril Ramaphosa quits parliament to try his hand in the world of business, his critics will no doubt attempt to paint him as just another capitalist whose heart was never fully in the struggle.

His move to New Africa Investments, the biggest of the black-controlled conglomerates, certainly takes him out of the race for the post-Mandela presidency. But Ramaphosa is no quitter – and he plans to hold on to his party position. At 42, he also has rather more time on his hands than the current deputy president, 53-year-old Thabo Mbeki.

Could this be a shrewd move towards a comeback as the next president but *one*?

Only trouble is, a senior rung of an industrial conglomerate is never going to be the best vantage point from which to start waving a banner for the revolution's forgotten children.

## Plenty of time

■ When in 1972 Australia's Labor Party won power after 23 years in the political wilderness, it spent a frenzied first month enacting as many campaign promises as possible.

The conservative coalition government which recently wrested power from Labor – after 13 years in opposition – is doing things rather differently.

Not only have policy initiatives been slow to emerge, but many senior ministers still lack advisers – and some have allegedly been reduced to writing their own press releases.

The applications seem to have been bogged down in a centralised committee-vetting process.

But, as they say, every cloud has its silver lining. Some lobbyists, for example, have pared back activities until the situation clarifies – thus sparing a fairly inexperienced ministerial team.

## Rave review

■ Mikhail Gorbachev, the last leader of the Soviet Union, may still be the darling of the international lecture circuit, fêted for his contribution to ending the cold war and dismantling totalitarianism.

But die-hard communists back home have just released a lurid film depicting him as the Prince of Darkness. In the four-and-a-half-hour epic, he is blamed for – among other things – the destruction of the Soviet Union, church schisms, the growth of wild capitalism, pornography, prostitution, the rise of the mafia, and war in the Gulf.

So Gorbachev, who registered as a candidate for the presidential elections on Saturday, must be relieved he has not been castigated for some of the other ills in Russian society – alcoholism, pot-holed roads, unfriendly border guards, lousy weather.

Not, at least, until Prince of Darkness II...

## The Financial Times

### 100 years ago

**A shriek of delight**

With a shriek of delight the "Middlesboro News" announces that the Holliday Stove Works has been cajoled into settling down in the great, but premature, City of Middlesborough, Kentucky, at the expense of the Town and Lands Company. The idea of a Nomadic Stove Works is rather amusing, but we imagine the manufacturers will have more fun than the shareholders in the Town and Lands Company. It was at their expense also that the Watts Steel Furnace Company came wandering there, but where are the profits to this day? Twice has this mushroom city collapsed through the policy of importing weedy industrial enterprises in order to create trade.

### 50 years ago

**U.S. inflation danger**

An appeal to the U.S. authorities to reconvert their thinking on the management of the huge Government debt was made by Mr. Emil Schram, the President of the New York Stock Exchange. He added that the urgency of this problem is "emphasised by the fact that the policies which we pursue will determine whether the dangerous inflationary potential which exists is to be controlled or whether it is to be released with disastrous effect."

FINANCIAL TIMES
Monday April 15 1996



Foreign employers may be deported for breaches

# Vietnam's union warns on alleged worker abuse

By Jeremy Grant in Hanoi

Foreign employers caught abusing Vietnamese workers could be deported and have their projects cancelled under proposals by the Vietnam Labour Union – the country's only trade union – which is allied to the ruling Communist party.

The move follows widespread reports in the Vietnamese media that workers are being badly treated by foreign employers, in some instances involving physical violence.

Mr Hoang Minh Chuc, vice-chairman of the union, said local authorities would be asked to step up efforts to investigate and prosecute cases where foreign employers had maltreated Vietnamese workers.

"We propose to deport foreigners who frequently violate Vietnamese law. We will also revoke the investment licences of foreign firms that often violate the law and do not respect Vietnamese workers," he was quoted in the semi-official weekly Vietnam Investment Review (VIR).

In one alleged incident this month, the female manager of a South Korean shoe manufacturing company lined up 15 Vietnamese workers and beat them about the face with unfinished shoes. Two of the workers were sent to hospital.

The director of a French company came under fire in local newspapers last year after allegations that he had placed a worker's head between his knees and struck him.

South Korean companies are most often singled out for attack in the Vietnamese media, with violence of some sort alleged in most cases.

"Ninety per cent of the time it [violence] is the fault of foreigners," Mr Nguyen Van Tu, the trade union's chairman, told a meeting of more than 100 managers at foreign-invested projects last week.

He added that only 30 per cent of foreign-invested projects were unionised.

The VIR said there were 12 strikes in the first three months of this year in Ho Chi Minh City, where most foreign investment is concentrated. Nine involved cases of physical abuse.

Most instances of alleged maltreatment have resulted in fines and demands for apologies. However, the labour union's demands for tougher measures are likely to receive a sympathetic hearing, diplomats and foreign investors said.

Only about 12 per cent of the workforce in the private sector is unionised.

Last week a draft political report by the ruling Communist party called for the creation of "party groups and cells" in foreign joint ventures and private businesses which did not already have them.

Strains of success, Page 16

# Fears of Bulgarian crisis prompt Euro-bank warning

By Kevin Done and Theodor Troev in Sofia

The banking sector in central and east Europe is "very much in flux" and each country "has far to go" before it can rely on a properly functioning banking system, Mr Jacques de Larosière, president of the European Bank for Reconstruction and Development, warned yesterday.

Many banks across the region have "considerable bad assets on their books", either inherited from the old Communist system or built up since the reforms began, Mr de Larosière's said on the eve of the annual meeting of the EBRD.

His warning comes as fears grow of a financial crisis in the host nation for the EBRD meeting. Bulgaria, which has lagged behind the pace of reform in many other parts of central Europe.

Negotiations with the International Monetary Fund on a new standby agreement and with the World Bank on financial and enterprise restructuring loans totalling about $800m are at a critical stage, with an IMF mission due in Sofia next week.

Mr de Larosière said some countries in the region had seen a proliferation of private banks which had "often failed to stick to the most basic principles of sound banking", leading to a further build-up of bad debt in the system.

He called for tougher regulation and supervision. Authorities should concentrate much more on the capital adequacy of banks, on the quality of lending and on rules for provisions against identified losses.

Some countries had enacted a basic framework for prudential regulation, but "in many cases these remain weak", and there had to be adequate supervision of banks to ensure compliance, he said. Banks in the region had to be able to operate freely on commercial grounds.

"They must be regulated by governments, but they must not be instructed by governments to provide loans to particular enterprises, which may be favoured by the government," he said.

The Bulgarian government is understood to have presented a package of intended reforms to the IMF during the weekend, including measures for the liquidation of lossmaking companies, improving the financial discipline of enterprises and for stabilising the financial sector.

A series of tax incentives, including five years of tax relief for privatised companies, was also announced by Mr Vesselin Blagoev, director of the privatisation agency, in an attempt to inject more investment into the country's privatisation effort.

But doubts remain about the credibility of the Bulgarian reform package, and some foreign bankers have this weekend warned of the danger that it will fail to service its debt. A large repayment on its Brady bonds is due in the summer and the country's foreign exchange reserves are shrinking.

Bulgaria has projected foreign debt servicing requirements of $1.2bn this year, and its foreign exchange reserves fell last month to $904m.

Mr William Rhodes, vice chairman of Citibank of the US, said both the government and the central bank had given assurances privately over the weekend that the Brady bond debt would be honoured and that "enough money had been set aside to make the July payment".

Observer, Page 17

# Luddites reconvene to preach peace, quiet and no TV

By Nancy Dunne in Barnesville, Ohio

The Second Luddite Congress will today formally denounce the technology-driven society. But, unlike their their 19th-century English predecessors who rioted in futile protest against the industrial revolution, the congress will advocate a non-violent approach.

The meeting of so-called neo-Luddites at the weekend in an unpretentious brick house in the hills of eastern Ohio, attracted about 350 academics, ruddy-faced environmentalists, bearded Quakers and Amish, writers, fallen yuppies, ageing flower children and young idealists seeking a technology-free environment.

Although it is not clear how much support the movement attracts, neo-Luddites represent a visible backlash to a society increasingly controlled by computers and robots or dominated by acquisition of material goods.

Despite antipathy to technology, the Luddites bear little resemblance to the Unabomber suspect Mr Theodore John Kaczynski, now under arrest in Montana. He lived as a hermit in a shack without electricity or plumbing and issued manifestos against the evils of modern times.

The congress is sponsored by The Centre for Plain Living, a spiritually-based group which promotes alternatives to a technology-based culture. Its director is Mr Scott Savage, a Quaker who drives a horse and buggy and had to rent a telephone to organise the meeting.

The speakers at the congress are a diverse group. There is Mr Kirkpatrick Sale, author of Rebels Against the Future: the Luddites and Their Wars and the Industrial Revolution, who blames technology for the "turmoil" in the world's economy.

Ms Stephanie Mills, an ecologist, urges "techno addicts" to seek out support groups to help kick their habit.

Mr Bill Henderson is a publisher and founder of the Anti-tech Lead Pencil Club, which has 800 members worldwide. They reject "instantly obsolete computers", the Internet and lives "invaded by a bewildering array of electronics".

If the neo-Luddites exhibit any hostility, it is directed mostly at Mr Bill Gates, founder-chairman of Microsoft and the personification of Mr Technology.

Television also came under wide attack – no one at the congress would admit to owning one – along with microwave ovens and even central heating.

The Luddites are receiving a lot of press attention but they refuse to talk to television, banning cameras from their congress. As they may learn, that is a difficult way to launch a popular movement in the US.

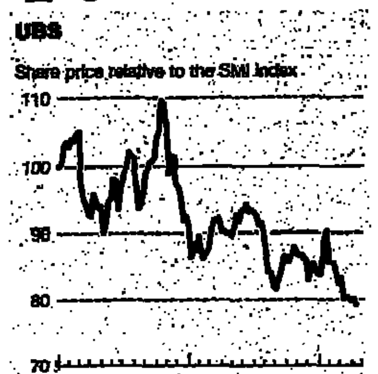
## THE LEX COLUMN

# UBS's pyrrhic victory

Having come off better than CS Holding in last week's merger mêlée, Union Bank of Switzerland now looks set to triumph over rebel shareholder Mr Martin Ebner at tomorrow's annual meeting. This would allow the current chief executive Mr Robert Studer to become chairman, ceding his position to Mr Mathis Cabialavetta. But what else would have changed? Unfortunately for UBS, not much. A margin of, say, 5 per cent in favour of the board will hardly look like a ringing endorsement. And the bank will still be stuck with a recalcitrant shareholder, who is fighting a legal battle to stop UBS introducing a single bearer share structure. Of course, Mr Ebner could decide to drop his civil lawsuits against the bank – although the criminal charges against individuals have to be carried through.

But Mr Ebner is unlikely simply to sell his shares, which would mean realising losses – and even if he did, the effect would probably be to depress UBS's shares further, since the stock is widely viewed as overvalued as a result of the Ebner holding.

There is some good news. Mr Cabialavetta may not be a new face, but he is a new breed of Swiss banker, more willing to embrace change than his predecessors. He may even bring a fresh approach to the bank's embittered relationship with Mr Ebner. Since Mr Cabialavetta is already on the board, he is of course backing the existing strategy, but he could decide to re-examine some of UBS's sacred cows – most notably, the bank's over-capitalisation which is depressing return on equity. While the triple-A credit rating may well be worth retaining, a BIS tier 1 capital ratio of nearly 10 per cent is excessive.




## Swiss banking

Last week's talk of merging two of Switzerland's big three Swiss banks is a reminder of the scale of the problems still besetting the domestic banking market. Although many banks have disappeared, the market remains overbanked. For all the problems it would have created, a merger of UBS and CS Holding would have solved the problem of overcapacity.

But the poor performance of Swiss banks is not due simply to competition in retail banking; profits have been depressed by provisioning against bad loans in the domestic corporate banking business. The reason is the dire state of the Swiss economy. Some Swiss bankers believe that small and medium-sized Swiss businesses are having a particularly difficult time because of Switzerland's decision to stay outside the European Union. That may have exacerbated the problem, but clearly some bad lending decisions have been made.

All this means that even if the contraction of the Swiss banking market continues – most likely through mergers of the cantonal banks – the banks' performance may not rebound until the economy picks up, and that is not expected for several years.

## Italy

It is hardly surprising that Italy's financial markets have greeted this weekend's elections with trepidation. None of the potential outcomes looks particularly palatable. An outright victory by Mr Silvio Berlusconi's right-wing coalition would be the worst case scenario. Italy desperately needs to tackle its debt mountain, but Mr Berlusconi's promises of tax cuts and hand-outs to the south are no remedy. His partnership with the National Alliance, which supports state control of industry, bodes ill for the privatisation programme. And there are Mr Berlusconi's vested interests. His TV arm, Mediaset, plans a move into telecoms, so there are considerable potential conflicts of interest if Mr Berlusconi is to be guardian of the state's TV and telecom involvement – particularly with the government soon to issue another mobile telephone licence.

A Berlusconi government would probably not be quite that bad, since it could not afford to deliver electoral pledges. But Mr Romano Prodi's centre-left coalition may also fail to live up to its promise. The coalition has a platform of fiscal prudence and rapid privatisation. Nonetheless, its members range from former Communists to former Berlusconi allies, so political direction could be easily lost.

A possible outcome is a hung parliament, with Italy returning to the political stalemate it reached after the collapse of Mr Berlusconi's last government. This would be no bad thing, if it enabled another technocratic government to tackle much-needed reform of the electoral system – and enabled therefore the promise of more decisive governments to come.

## UK politics

So far as the gilt market was concerned, the Conservative party's dreadful performance in Thursday's by-election was a non-event. That speaks volumes about the extent to which worries over a Labour victory are already priced in.

Some of these worries are well-founded. Given the Labour party's reluctance to make concrete policy commitments, the markets are right to demand a premium for uncertainty. But not all the apprehension is justified. For a start, if last week's result is anything to go by, Labour stands a decent chance of winning a decisive majority. Paradoxically, a strong Labour government, with a clear dominance of "new" over "old" Labour, would probably be good news for investors. Also, even if Labour wanted to let the economy rip – by, say, borrowing even more than the Conservatives – it would face at least one conspicuous obstacle: the Bank of England's freedom, which Labour has promised to entrench, to dissent publicly from government policy.

An even tougher discipline could stem from Labour's enthusiasm for Europe. On European Monetary Union, the party remains on the fence. But it is much more likely to join than the Conservatives – the Trades Union Congress, for instance, is strongly in favour. Labour is at least likely to want to keep the option open, and it cannot do that without keeping borrowing and inflation under control.

## Yahoo!

The debut of Yahoo!, the online directory service for the World Wide Web, on the US stock market on Friday is the latest example of investors' unbounded enthusiasm for stocks associated with the Internet. Yahoo! is getting about 6m hits a day and has managed to establish a brand name: it is certainly an attractive growth stock. But its near record first day performance – the price rose 154 per cent – stretches credulity: a company that has yet to turn a profit now has a market capitalisation of $850m (£559.2m). Yet, unlike some other Internet stocks, Yahoo cannot claim a monopoly, and the strength of the brand name has yet to be tested.

# UBS chief hints at link-up with SBC group

Continued from Page 1

merger with SBC would be less problematic than one with CS Holding, as there would be significantly less overlap of branches in Switzerland.

Also, the SBC culture was closer than that of CS Holding to UBS's. UBS acknowledged significant overlap between the investment banking businesses of the two in London. SBC last year acquired S.G. Warburg investment bank and UBS acquired brokers and fund managers Phillips & Drew in 1984.

Mr Senn, who is to retire as chairman after the UBS annual shareholders' meeting on Tuesday, predicted Mr Robert Studer, the bank's former chief executive, would be elected as a director and chairman of the bank. The nomination is opposed by the bank's largest shareholder and other institutional investors.



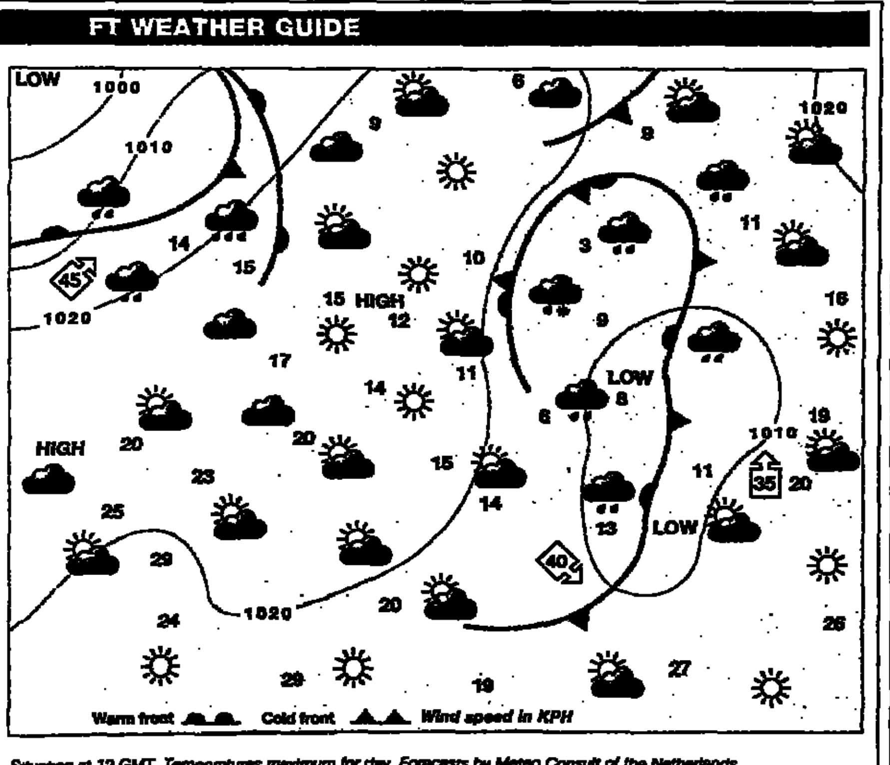
## FT WEATHER GUIDE

### Europe today

Southerly winds will bring warm air from the Atlantic across the British Isles. Ireland will have rain in the morning, but Wales and Scotland will stay dry until the afternoon or evening. There will be sun in the Benelux and Germany. Eastern and central France will also remain sunny, but western regions will have rain. Spain, Portugal and Italy will have sun. Unsettled conditions over south-eastern Europe will cause rain over the Balkans, Greece and western Turkey. The highest mountain summits will have snow. The Baltic states will remain dry but cloudy.

### Five-day forecast

Rain over western and northern Britain tomorrow will move slowly towards the continent. Rain is expected on Wednesday in France, the Benelux and Germany. Temperatures may rise to around 18C in France and 15C in the Benelux. Thursday and Friday will be changeable with periods of sun and rain. Spain and Portugal will be warm and Italy will remain sunny.




Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

**TODAY'S TEMPERATURES**

| | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Maximum | Beijing | fair | 22 | Caracas | cloudy | 30 | Faro | fair | 24 | Madrid | fair | 23 | Rangoon | sun | 37 |
| | | Celsius | Belfast | rain | 13 | Cardiff | cloudy | 15 | Frankfurt | sun | 14 | Majorca | fair | 19 | Reykjavik | rain | 9 |
| Abu Dhabi | fair | 36 | Belgrade | rain | 5 | Casablanca | sun | 24 | Geneva | sun | 15 | Malta | cloudy | 19 | Rio | cloudy | 27 |
| Accra | thund | 31 | Berlin | fair | 10 | Chicago | rain | 5 | Gibraltar | sun | 23 | Manchester | drzzl | 14 | Rome | fair | 18 |
| Algiers | cloudy | 18 | Bermuda | fair | 20 | Cologne | sun | 15 | Glasgow | rain | 12 | Manila | cloudy | 33 | S. Frsco | shower | 18 |
| Amsterdam | sun | 14 | Bogota | cloudy | 19 | Dakar | fair | 25 | Hamburg | sun | 13 | Melbourne | shower | 18 | Seoul | fair | 18 |
| Athens | fair | 18 | Bombay | sun | 32 | Dallas | sun | 20 | Helsinki | cloudy | 6 | Mexico City | sun | 25 | Singapore | cloudy | 32 |
| Atlanta | thund | 25 | Brussels | sun | 15 | Delhi | sun | 37 | Hong Kong | cloudy | 22 | Miami | fair | 30 | Stockholm | fair | 10 |
| B. Aires | cloudy | 22 | Budapest | cloudy | 8 | Dubai | fair | 33 | Honolulu | fair | 30 | Milan | sun | 19 | Strasbourg | sun | 15 |
| B.ham | cloudy | 15 | C.hagen | fair | 11 | Dublin | rain | 14 | Istanbul | rain | 10 | Montreal | fair | 11 | Sydney | fair | 22 |
| Bangkok | shower | 35 | Cairo | sun | 27 | Dubrovnik | cloudy | 13 | Jakarta | fair | 33 | Moscow | cloudy | 10 | Tangier | sun | 22 |
| Barcelona | cloudy | 18 | Cape Town | shower | 20 | Edinburgh | cloudy | 14 | Jersey | cloudy | 14 | Munich | fair | 10 | Tel Aviv | sun | 23 |
| | | | | | | | | | Karachi | sun | 40 | Nairobi | shower | 27 | Tokyo | shower | 16 |
| | | | | | | | | | Kuwait | fair | 25 | Naples | cloudy | 17 | Toronto | shower | 10 |
| | | | | | | | | | L. Angeles | sun | 22 | Nassau | fair | 28 | Vancouver | rain | 16 |
| | | | | | | | | | Las Palmas | sun | 25 | New York | cloudy | 11 | Venice | fair | 17 |
| | | | | | | | | | Lima | fair | 25 | Nice | fair | 18 | Vienna | cloudy | 10 |
| | | | | | | | | | Lisbon | fair | 24 | Nicosia | fair | 20 | Warsaw | rain | 6 |
| | | | | | | | | | London | fair | 17 | Oslo | fair | 9 | Washington | shower | 14 |
| | | | | | | | | | Lux.bourg | sun | 14 | Paris | sun | 17 | Wellington | cloudy | 18 |
| | | | | | | | | | Lyon | sun | 16 | Perth | fair | 25 | Winnipeg | fair | 4 |
| | | | | | | | | | Madeira | sun | 23 | Prague | fair | 9 | Zurich | fair | 12 |



هكذا من الأصل

مكرر من الاصل





FINANCIAL TIMES
# COMPANIES & MARKETS





Monday April 15 1996

## Germany close to sanctioning share buy-backs

By Jenny Luesby in London and Peter Norman in Bonn

The German government is close to agreeing measures which would allow German companies to buy back their own shares.

Share buy-backs have become popular in the US, where more than 300 companies have announced plans to buy back $40bn of stock so far this year, and in the UK. But they remain illegal in Germany, except in individual cases and within very narrow limits.

"It is not possible for German public companies to acquire their own shares for the support of the share price, to distribute to shareholders, or to change the capital structure of the company," says the German Share Institute, a lobby group that represents the issuers of equity.

However, in an interview, Mr Max Dietrich Kley, finance director of BASF, said the justice ministry had agreed to legalise buy-backs, and he was hopeful of an amendment to the law "by the end of this year".

Mr Rüdiger von Rosen, chief executive of the German Share Institute, also predicted a reform permitting buy-backs, but thought it was more likely to be next year than this.

The Institute had been asked to present its proposals for share buy-backs by the finance ministry, he said. These had been forwarded to the justice ministry in January and had received a "positive reaction".

The Institute proposed that buy-backs should be executed through the stock exchange; that they should not be financed by use of a company's capital and that they should not amount to more than 10 per cent of a company's subscribed capital.

The justice ministry confirmed there had been internal discussions on legalising share buy-backs. This had also been raised in letters to Mr Rainer Funke, parliamentary state secretary at the ministry.

But a justice ministry official said it was "very doubtful" whether the change would be incorporated in this year's planned share law reform.

BASF, however, is keen to see a change as soon as possible. The company, which has repeatedly said its shares are undervalued, has a cash pile of more than DM3.4bn ($2.3bn). Mr Kley said it would mount a buy-back as soon as the law was amended.

Bayer, which is similarly cash-rich, has also been campaigning for the change. The group's finance director, Mr Helmut Loehr, is president of the German Share Institute, and has been a leading proponent of share buy-backs.

German companies, said Mr Loehr, were being deprived of an instrument used elsewhere to change companies' capital structures and "ensure appropriate share values".

"A relatively small change in German corporate law would considerably strengthen the German capital market and corporate financing," he said.

## Bank of Ireland in big UK expansion

By George Graham, Banking Correspondent

Bank of Ireland, the second largest Irish bank, will today announce a significant expansion into the UK retail banking market with the £600m ($912m) acquisition of Bristol & West, the ninth largest building society.

The acquisition will bring payouts to Bristol & West investors and borrowers averaging between £800 and £1,000, as the dwindling band of mutual building societies continues its headlong flight to takeover or stock market flotation.

Bank of Ireland, which has only 28 branches in the UK as well as a business selling mortgages through brokers, will keep Bristol & West as its British mortgage brand and retain the management.

Bristol and West has 159 branches and assets of £8.5bn. It made a pre-tax profit of £38m last year, after a £34m provision arising from its sale of the remainder of Hamptons, its unsuccessful venture into estate agency.

The society was among those hardest hit by the UK property downturn in the early 1990s, and saw the quality of its assets diminish significantly.

It has worked, however, to refocus its businesses on the traditional building society staples of mortgages, savings and investments, and has retreated from sidelines such as unsecured lending and travellers' cheques.

Only a few building societies, led by Nationwide, remain committed to mutual status, and even they are resigned to seeing their sector – which some still like to refer to as a "movement" – shrink.

Because Bank of Ireland's UK mortgage business is funded at wholesale interest rates, it has been squeezed by competition in the past year. Bristol & West's retail deposit base will help it by offering funding at lower rates.

After last week's move by the Nationwide and Yorkshire building societies, two of the handful of diehard mutuals, to cut mortgage rates to 6.74 per cent, cheaper funding will prove even more important to Bank of Ireland.

Almost all the largest building societies have either converted into banks, like Abbey National; agreed to be taken over by banks, as National & Provincial members did last week; or announced plans for conversion, like Halifax, Woolwich or, most recently, Northern Rock.

### Swiss bank gains support against maverick broker after rejecting merger with CS Holding

## UBS prepares for the return of its tormentor

Tomorrow, the board of Union Bank of Switzerland plunges once again into a proxy fight with Mr Martin Ebner, Zurich's maverick broker who has been contesting the bank's governance for four years.

The board of Switzerland's largest bank again looks set to win the day for its motions at the annual shareholders' meeting at Zurich's Hallenstadion. But, even more than in previous confrontations, their victory will probably be Pyrrhic.

Mr Ebner, a successful institutional broker with SFr3bn ($2.5bn) in equity behind him, is unlikely to go away. That means that the UBS board and top executives will still be tormented by his pertinent criticisms and his legal actions.

Moreover, other large Swiss institutional shareholders have become increasingly restive in recent months, and could withdraw their support for the board soon unless the seemingly endless dispute with Mr Ebner can be resolved.

Until last week's tumult over the revelation that CS Holding, the group built around the Credit Suisse bank, had suggested that it and UBS should think about merging, few would make bets about the outcome of tomorrow's meeting.

Many big institutions were said to be unhappy about the UBS leadership, and were thinking about voting with Mr Ebner against the board's nomination of Mr Robert Studer, the former chief executive, as the new chairman.

But the prospect of up to 10,000 redundancies that might be caused by a merger with CS Holding transformed the debate. Not only Swiss politicians but also business leaders were horrified.

In a dramatic statement on Thursday evening the UBS board briskly rejected the merger idea. On Friday, one of the large pension funds known to be disenchanted with UBS's management, that of Switzerland's Coop supermarkets group, said it would support the board at tomorrow's meeting.

UBS leaders, hitherto cautious in their predictions, have suddenly become more confident. Mr Nikolaus Senn, the retiring UBS chairman, said at the weekend that he believed Mr Studer would be "comfortably elected".

Mr Studer will almost certainly not be comfortable in the chairman's seat. He will be under pressure from civil and criminal legal actions from Mr Ebner and the eagerness of a few large new shareholders, as well as existing ones, to see a sharp improvement in the bank's performance.

Mr Ebner's legal actions arise from a confrontation between him and the board in the autumn of 1994. Partly in an attempt to dilute his influence, the board proposed unifying the bank's share structure, a move that would remove the extra voting power of the registered shares.

The plan was approved by a narrow margin at a shareholders' meeting, but shortly afterwards Mr Ebner, who had opposed it, charged UBS with improperly buying large blocks of its registered shares to influence the vote. He also won an injunction blocking the plan's implementation.

When the UBS board insisted that no one had done anything wrong, he filed criminal charges against Mr Studer and other executive directors, accusing them of using shareholders' funds to buy registered shares to fulfil a strategy – share unification – that they knew would result in the decline in the value of those shares.

Mr Ebner's civil case rests mainly on the legality of a purchase by UBS of a large block of registered shares on a forward basis in the run-up to the unification vote. Under Swiss law, the bank would not have been allowed to vote these shares if it had bought them outright.

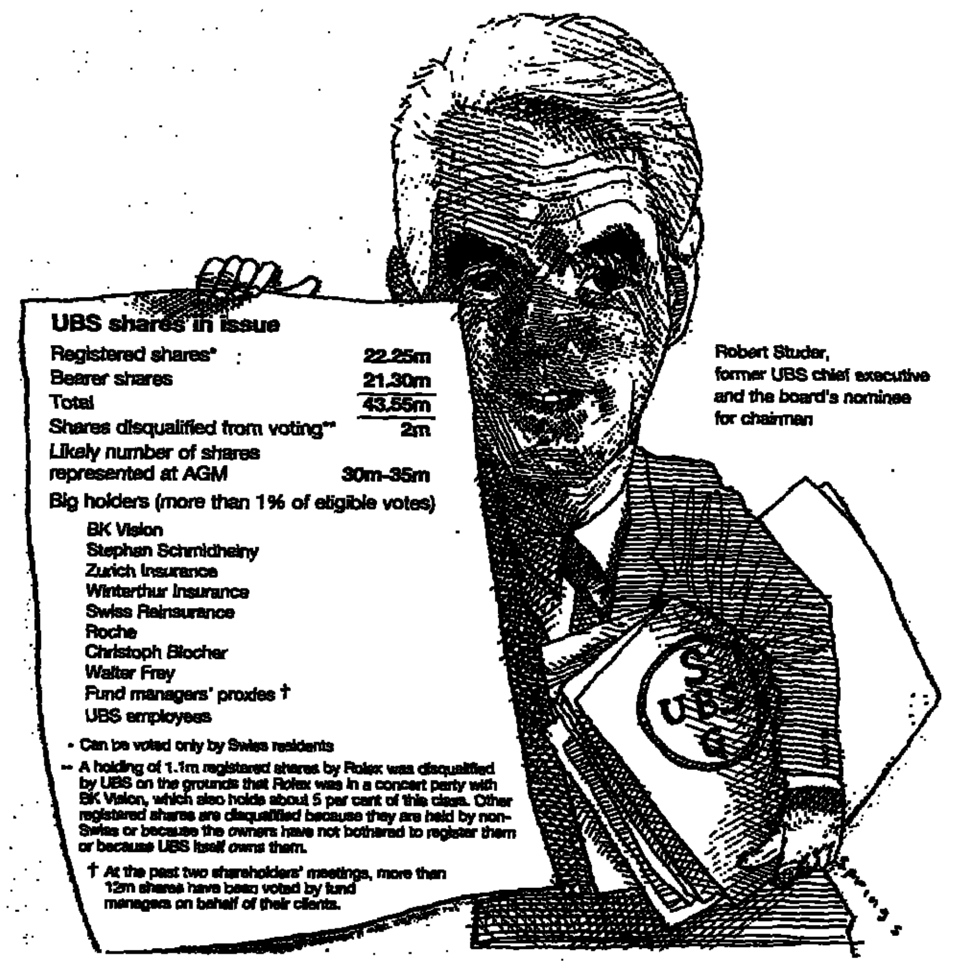
But by postponing delivery, the vendor retained the right to, and in fact did, vote them. Mr Ebner claims that the vendor should not have been allowed to vote them because he had given up the economic risk of holding them.

Swiss courts are notorious for being slow, but the silence from the civil court and the criminal prosecutors has become more deafening with each passing month.

Disputes within the tightly knit Swiss business community are usually resolved informally, and the judges and prosecutors may still be hoping for an amicable settlement.

But since an aborted mediation attempt a year ago, neither side has shown any sign of backing down, although some large transactions in UBS shares in the past two months remain unexplained.

In February, Mr Ebner's BK Vision fund sold a 5 per cent packet of registered shares, a quarter of its holding, worth SFr250m to Mr Stephan Schmidheiny, a cash rich industrialist and UBS board member.




Robert Studer, former UBS chief executive and the board's nominee for chairman

Because the registered shares trade at about a 10 per cent premium to the bearer shares and provide no greater dividend yield, Mr Schmidheiny was obviously interested in their enhanced voting power.

Since then, similarly large blocks of registered shares have been purchased from BK Vision by Zurich Insurance, Swiss Reinsurance and Winterthur Insurance.

The most plausible explanation for all this activity is that these investors, all of whom are at the heart of the Swiss business establishment, decided, either alone or together, that it was time to take matters into their own hands.

According to this view, they recognised that Mr Ebner was in a corner, with a huge holding in registered shares for which the market was very thin. But Mr Ebner, ever an unpredictable loner, promptly used the proceeds of the share sale to buy an equivalent pile of UBS bearer shares, indicating that he intended to carry on fighting.

Another possibility is that these new investors too will soon start to put the heat on the UBS board.

Mr Schmidheiny said last week that he would support the nomination of Mr Studer but added that he did not agree with "everything that is said or done by the UBS board".

The insurance companies have said nothing, but they have met UBS directors since buying their stakes and, according to some reports, it was not a happy meeting.

Lex, Page 18

**Ian Rodger**

## INSIDE

### CS Holding
CS Holding, the Swiss banking group whose merger proposal was rejected last week by UBS, is taking the first steps in integrating its commercial and investment banking operations. Credit Suisse and CS First Boston, the commercial and investment banking businesses respectively, have agreed to merge their operations in Germany. Page 21

### Eurodis
A takeover of Eurodis Electron is in the balance after talks stalled between Switzerland's Elektrowatt, which is trying to sell a 42 per cent stake in the UK electronic components distributor, and a German manufacturer. Page 20

### Fund Management
Certain kinds of animals such as sheep and zebras show a herding instinct which is partly responsible for their survival. But a similar impulse seems to drive fund managers in making their allocations. Mr John Gibbon, the in-house investment manager for the British Aerospace pension scheme, which is some 80 per cent invested in equities, concedes: "Consensus develops and its kind of hard to resist it. If you are wrong [about breaking away] it's hard to defend yourself." Page 24

### Faces
Mr Philip Bruce, managing director of strategic business development at the London International Financial Futures and Options Exchange (Liffe), made 25 trips to Tokyo in the course of negotiating the strategic link with the Tokyo International Financial Futures Exchange – a link which went live last week as the first euroyen contract was traded on Liffe. With the Tokyo tie-up forged, Mr Bruce will soon be heading west in preparation for Liffe's link-up later this year with the Chicago Board of Trade. Page 24

## PolyGram lines up bid for MGM

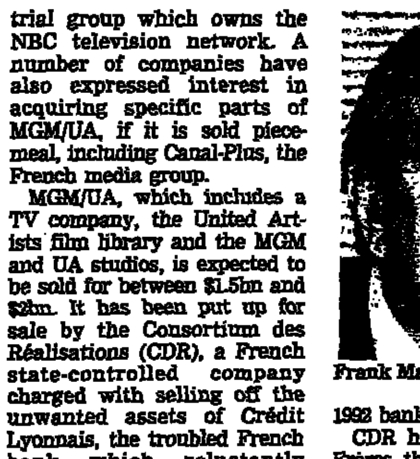
By Alice Rawsthorn in London

PolyGram, the Dutch entertainment group, and New Regency, Mr Arnon Milchan's US film production company, are expected to be among the bidders in this week's first round of the auction of MGM/UA, the Hollywood studio.

The deadline for the initial bids for MGM/UA, which has recently produced a string of hits including *GoldenEye*, the latest James Bond film, and *Leaving Las Vegas*, for which Nicholas Cage won the Best Actor Oscar, is on Wednesday.

Other possible bidders include Walt Disney, the US entertainment concern, and General Electric, the US industrial group which owns the NBC television network. A number of companies have also expressed interest in acquiring specific parts of MGM/UA, if it is sold piecemeal, including Canal-Plus, the French media group.

MGM/UA, which includes a TV company, the United Artists film library and the MGM and UA studios, is expected to be sold for between $1.5bn and $2bn. It has been put up for sale by the Consortium des Réalisations (CDR), a French state-controlled company charged with selling off the unwanted assets of Crédit Lyonnais, the troubled French bank which reluctantly acquired MGM/UA in a 1992 bankruptcy case.



Frank Mancuso: may try MBO

CDR has appointed Lazard Frères, the investment bank, to orchestrate the sale, which has attracted an unusually high level of interest.

Participants in the first round of the auction will have to say how much they would bid for UA and how they would finance the deal. CDR and Lazard Frères will then produce a shortlist of bidders.

Several groups initially expected to bid have signalled they do not plan to, including Chargeurs, the French industrial group, and Bertelsmann, the German media concern.

Meanwhile Mr Frank Mancuso, MGM/UA chairman, is considering assembling a management buy-out deal to compete against the shortlisted bidders.

Faces, Page 24


STATISTICS

| | | | |
|---|---|---|---|
| Base lending rates | 29 | London recent issues | 29 |
| Company meetings | 8 | London share service | 32-33 |
| Dividend payments | 8 | Managed fund service | 30-31 |
| FT/S&P-A World Indices | 25 | Money markets | 29 |
| FT Guide to currencies | 26 | New int bond issues | 26-27 |
| Foreign exchanges | 29 | World stock mkt indices | 28 |

COMPANIES IN THIS ISSUE

| | | | |
|---|---|---|---|
| Alcan Aluminium | 21 | New Regency | 19 |
| Anglo American | 4 | PolyGram | 19 |
| Bank of Ireland | 19 | Pro Sieben | 22 |
| Bristol & West | 19 | Reuters | 20 |
| CS Holding | 21 | SBC | 1, 18 |
| Eurodis Electron | 20 | Sandvik | 21, 19 |
| France Télécom | 1 | Sanyo | 21 |
| Freeport | 6 | Stockholm Energi | 22 |
| Imatran Voima | 22 | Sunderland FC | 20 |
| Jardine Fleming | 21 | Svedala | 19 |
| Kommin Daiwa | 21 | Svedala Industri | 21 |
| Kvaerner | 21 | Tampella | 21, 19 |
| MGM | 19 | Texas Instruments | 21 |
| Mannesmann | 21 | UBS | 1, 18, 19 |
| Mulburry | 20 | Vanguard Medica | 20 |
| New Africa Invest | 4 | Volvo | 22 |
| | | Yahoo | 18 |


## Bid battle starts for Tampella

By Greg McIvor in Stockholm

A takeover battle for Tampella, the Finnish engineering group, is under way after Sandvik, the Swedish tools and speciality steels group, bought a 26 per cent interest for about SKr500m ($75m) from Kvaerner of Norway.

The move followed last week's offer by Svedala Industri, the Swedish mining and construction group, to merge with Tampella in a deal worth SKr1.83bn.

Sandvik has held a 25 per cent interest in Tampella's rock-drilling machinery supplier, Tamrock, since 1991 and said it wanted to extend existing co-operation. It was interested in acquiring up to 40 per cent of Tampella, which would enable it to turn Tamrock into a wholly-owned subsidiary.

Mr Clas Ake Hedström, Sandvik chief executive, said he had been working to acquire Kvaerner's stake since February, when the Norwegian group bought a 26 per cent stake for $58.8m alongside its $26.8m purchase of the Finnish group's troubled chemical recovery system supplier.

"We want to secure, and also to lay further foundations for, increased product development and marketing between Sandvik Rock Tools and Tamrock's drilling machines," he said.

The deal had clear industrial benefits for Sandvik and would allow Tampella to achieve its ambition of merging Tamrock with its subsidiary Detec, a mechanical demolition hammer supplier.

Tampella described the Sandvik move as beneficial for the existing co-operation between the two groups. It has made no comment on Svedala's bid.

Takeover battles are rare in the Nordic countries, where deals tend to proceed through consensus.

Mr Thomas Older, Svedala chief executive, expressed surprise at the Sandvik move. "Sandvik has been happy with being a 25 per cent shareholder in Tamrock in the past and I don't know why that has changed," he said.

He added that Tampella was too small to enter new and important foreign markets and insisted Svedala would not be withdrawing its bid. However, he conceded the company might have to settle for less than the 90 per cent control it stipulated last week.

Svedala officials claimed Sandvik's bid failed to benefit Tampella and its minority shareholders, and stressed Sandvik's collaboration with Tamrock would be unaffected if Svedala purchased the parent company.

They accused Sandvik of seeking to undermine a deal based on sound industrial sense. Earlier this month Sandvik levelled the same accusation at Trustor, the Swedish industrial holding company, which rejected Sandvik's bid for Sweden's Kanthal, a heating wire company.

## COMPANIES AND FINANCE: UK

# Eurodis stake sale in doubt as talks stall on price

By Christopher Price

A takeover of Eurodis Electron is in the balance after talks stalled between Switzerland's Elektrowatt, which is trying to sell a 42 per cent stake in the UK electronic components distributor, and a German manufacturer. The sticking-point is understood to be the price.

However, the Swiss power and engineering group remains hopeful of securing a deal, although it is understood to have still not ruled out placing the stock with institutions in the London market.

Such a move would mean Elektrowatt having to accept a lower price – it had hoped to sell its shareholding to a third party and at a premium for about £100m ($152m). At the current market price, the stake is worth £74m and a discount for a placing would realise little over £60m.

The unnamed German group is understood not to be currently involved in electronics and is considering the purchase as part of a long-term strategy to widen its revenue streams. It is also believed to be the remaining interested party of several which showed an interest in Eurodis Electron.

However, with the creation of the business being so recent, due diligence, and with it valuation, has been difficult for any potential bidders to carry out.

Buyers of the stake would be obliged to make an offer for the rest of the UK group's shares.

Elektrowatt put its shareholding up for sale earlier this year in a move which enraged the Eurodis Electron management. Following the merger between Electron House and Eurodis, owned by Elektrowatt, in July, the UK management believed the Swiss were long-term shareholders. The deal created the fifth largest franchised component distribution group in Europe.

However, the acquisition of Landis & Gyr, the electronics group, in December by Elektrowatt for SFr1.8bn ($980m) prompted a change in strategy and the need for disposals to help pay for the acquisition.

The Eurodis Electron board was informed that month of the Swiss group's decision, as was the management of Unitech, the power supplies group, in which Elektrowatt held a 35 per cent stake. The latter was recently sold to Siebe for £103m, which also secured the rest of Unitech in £520m deal.

The Swiss group is thought to have given itself a deadline of June to make the Eurodis Electron disposal.

# Sunderland Football Club mulls a float

By Patrick Harverson

Sunderland Football Club is considering a stock market flotation as a way to raise money to fund its growth if, as looks likely, the north-east of England club is promoted to the Premier League.

According to a senior executive at the club: "The whole financing of the club is being looked at it in great detail at the moment . . . and a flotation is being considered as an option."

If Sunderland decides to go public, it will join a growing band of football clubs on the stock market, where investors have been impressed by the financial successes of Manchester United and Tottenham Hotspur.

Their profits have grown in recent years on increased revenues from television fees, sponsorship deals and merchandising sales.

Two weeks ago, shares in Chelsea began trading on the Alternative Investment Market – the junior stock market which Sunderland would probably join if it opted for a flotation – increasing the number of quoted clubs to six.

West Bromwich Albion recently committed itself to a flotation.

Sunderland has a four-point lead at the top of the First Division and with only four games remaining in the season looks a good bet for promotion to the top flight. If the club does go up, it will need access to funds to buy players, and pay an increased wage bill.

Construction of a £15m ($22.8m) 40,000-seater stadium is already under way.

However, Sunderland struggles to break even before transfer fees on annual revenues of just £6.5m ($9.9m).

The club is currently owned by five businessmen, and although they have provided some of the funds for the new stadium and majority-shareholder Mr Bob Murray has pledged a further £10m on promotion, even more money would be required for a prolonged stay in the Premiership.

# Vanguard expects to raise a higher sum

By Christopher Price

Interest from potential investors in Vanguard Medica, the UK pharmaceutical development company due to float on the London main market this month, has led the company to increase the amount of money it anticipates raising from £30m to £40m ($60.8m).

The move is likely to result in the market valuation, which had been pencilled in at about £80m, rising to between £90m and £100m ($152m).

In its pathfinder prospectus, published today, Vanguard will also announce the personnel for its US advisory board, which has been established to strengthen the company's credentials in the North American healthcare market.

Members include Mr Peter Hutt, a former chief counsel for the Food and Drug Administration, Dr Martin Jaffe', a former president of RW Johnson Pharmaceutical Research Institute, and Mr Joe Cook, a former group vice-president of Eli Lilley.

Vanguard specialises in developing compounds invented by other drugs companies or academic departments. It believes its directors – including Professor Sir John Vane, a Nobel prize winner and former research and development director at Wellcome – have sufficient contacts in the industry to help it find compounds discarded by the pharmaceutical giants.

The placing is sponsored by Kleinwort Benson. Cazenove is broker to the issue.

# Mulberry goes round to Aim in £8.5m placing

By Roland Adburgham

Mulberry, the designer brand created out of a classic English country, hunting, shooting and fishing style, is to join the Alternative Investment Market next month.

A placing of 25 per cent of its share capital, intended to raise about £8.5m, should value the Somerset-based company at more than £30m. The rest of the shares are held by Mr Roger Saul, founder, chairman, and chief executive, his family, and fellow directors.

More than £6m from the placing will be used to redeem an original £4m of funding provided in 1992 by Charterhouse Development Capital, Kleinwort Development Capital and Phoenix Fund Managers.

This was in the form of equity and deep-discounted loan notes. By redeeming the loan notes, which have high interest charges, cashflow and net asset value will improve significantly. "The money we raise will give us a far better balance sheet so that we can drive the business forward," said Mr Saul.

He believes the company's new structure will enable it to exploit "one of the few British designer brands to compete successfully with France's Louis Vuitton, Italy's Gucci and America's Ralph Lauren".

The company designs and makes women's and men's clothing, leather accessories and interior design goods, all at the top end of the market, with briefcases ranging from £250 to more than £500.

The company, which Mr Saul started in Chilcompton, Somerset, in 1971, had sales of £25.3m for the year ending March 31 1995, with pre-tax profits of £1.96m. Sales and profits have "absolutely" improved in the year just ended, said Mr Saul.

The recession had not checked growth – "people turned back to quality and craftsmanship and many were prepared to pay for it". He acknowledges that, at least among British men, the brand is not as well known in Britain as its international rivals. Overseas sales account for 70 per cent of turnover.

Brown, Shipley is the adviser to the placing and Teather & Greenwood is the broker.

Trading is expected to start on May 22.

● La Senza, a lingerie and nightwear retailer, is coming to the Aim through a £15m placing. The float is expected to value the Canadian-owned company at around £40m. It has 22 branches in the UK.

Malcolm Watson

Roger Saul: exploiting a British brand to compete with Gucci

# Reuters' holders wait for cash-back details

By Christopher Price

Investors in Reuters, the financial information group, are hoping to learn further details of plans to return cash to shareholders as the company begins a week of events including its first quarter results, annual general meeting and a biennial customer convention.

Speculation over how the group intends to spend its £850m ($1.3bn) cash pile has been behind the recent sharp rise in the share price, which has jumped 35 per cent since the beginning of the year. A share buy-back or special dividend are thought to be the most favoured options, although taxation questions are raised by both.

Tomorrow, Reuters' directors will make their annual presentation to shareholders, coinciding with the first quarter revenue figures, expected to show a rise of about 11 per cent to £700m ($628m).

On Wednesday, the company will begin a three day convention in Geneva, transporting 2,500 customers, institutional shareholders, analysts and journalists to the Swiss city.

Mr Peter Job, chief executive, will deliver a keynote speech to the conference on the first day, expected to emphasise new services which relate real-time information to historical data.

Reuters last repurchased shares in 1993, when it spent £350m on the process. In February this year it stressed the complex legal issues which had emerged around share buy-backs in the UK since then.

Previously, its repurchase had been made through a tender offer, which allowed tax-exempt shareholders to receive a tax credit linked to the group's advance corporation tax (ACT).

However, the Inland Revenue, worried that the system is open to abuse by some institutions, has refused to give tax clearance to similar schemes.

## WEEKEND SHARE WATCH

A digest of Saturday and Sunday comment on UK companies

■ TR Pacific investment trust is expected to launch a bid for Thornton Asian investment trust, the Sunday Telegraph reported. Combining the two funds would create a £300m ($456m) investment trust.

TR Pacific is one of the best performing Asian investment trusts, while the performance of Thornton, chaired by Lord Walker, the former cabinet minister, has lagged.

TR Pacific is run by Henderson Touche Remnant, the listed fund management group. Thornton Investment Management is owned by Dresdner Bank. Neither company could be reached for comment yesterday.

■ Yorkshire Electricity, the regional electricity company, is considering whether to seek an alliance with another power group because of impending consolidation of the industry in England, the Sunday Times reported.

Mr Malcolm Chatwin, chief executive, said yesterday: "We are independent and we shall be arguing that corner for some time to come.

"Our record of returning value to shareholders speaks for itself."

He said it was too early to judge the possible ramifications of the latest Monopolies and Mergers Commission inquiry into the industry.

■ Discount stores group WEW is to make pay-offs totalling nearly £1m to three former directors who left as part of a management shake-up last year, the Mail on Sunday reported.

Payments have been made to Mr Peter Carr, who stepped down as executive chairman in December and left the company in January, and property director Mr David Ramage. However, the company said yesterday a settlement for former finance director Mr Keith Paskins is still under negotiation. Mr Richard Boland, Mr Carr's successor, and Mr James Millar, the new non-executive chairman,' will unveil interim results for WEW on Thursday and give a progress report on the new management's initiatives.

■ Mr Tim Wadeson, the group technical director of South Africa's Anglo-American Corporation, is expected to be made a non-executive director at Lonrho, the Sunday Telegraph reported. A spokesman for Anglo confirmed that the company was planning to appoint a senior technical specialist to Lonrho's board, but said he had yet to be named. Other observers said Mr Wadeson was a very likely candidate.

Lonrho chief executive Mr Dieter Bock last week gave Anglo an option to buy his remaining 18.4 per cent stake in the UK conglomerate by mid-September. Lonrho plans to demerge its mining interests, and Anglo is to provide technical and other mining-related services to Lonrho, including the appointment of a senior technical director to Lonrho's board.

هكذا من الاصل



COMPANIES AND FINANCE

# CS Holding starts banking integration

By Nicholas Denton

CS Holding, the Swiss banking group whose merger proposal was rejected last week by UBS, is taking the first steps in integrating its commercial and investment banking operations.

Credit Suisse and CS First Boston, the commercial and investment banking businesses respectively, have agreed to merge their operations in Germany. The joint subsidiary will be two-thirds owned by Credit Suisse and one-third by CSFB.

CSFB executives said Germany, if the experiment is successful, could provide a model for other parts of the international operation. Integration in the UK, where the CS group employs 4,000, is an option.

Under the new structure, a single account officer will cover each client and sell investment banking services such as acquisitions advice at the same time as traditional commercial banking products such as loans. Although the main purpose is to improve revenues, the reorganisation will allow some savings on costs through the elimination of overlapping functions.

CS Holding executives believe that, while retail banking will remain separate, some of the corporate banking activities of Credit Suisse will ultimately be grouped together with CS First Boston.

The group was among the first in the sector to combine commercial and investment banking, when Credit Suisse formed a joint venture in 1978 with First Boston, the US investment bank.

But CSFB, while co-operating with Credit Suisse, has remained attached to its autonomy. Other institutions such as Barclays Bank, which came to investment banking later, have leap-frogged CS Holding in the integration of commercial and investment banking.

The CS group, in a private survey of its clients in Germany, found many irritated by the lack of co-ordination between different subsidiaries. For instance, Credit Suisse Financial Products, the derivatives arm, would pitch its risk management products without knowing a client had already eschewed them.

But CS First Boston executives still maintain independence is key to their creativity as an investment bank. Also, the group does not want to tie its businesses so closely together so that it has to give cheap credit in order to win investment banking business.

# Coats Viyella to cut 2,700 jobs in restructuring

By Motoko Rich

Coats Viyella, the UK textiles and engineering group, is planning more than 2,700 job losses, mainly in the UK and India, as part of a £50m ($75.6m) restructuring.

It is understood the group has already informed UK employees that about 1,300 of the 28,000 UK jobs will be cut this year. The likelihood is that this number will be exceeded.

In addition, it is understood the group is seeking about 1,400 voluntary redundancies from its Indian operations, where it employs 14,000.

The company signalled that job cuts were on the way last month when it reported a 6.4 per cent drop in underlying 1995 profits and said it was taking a £50m provision this year for restructuring. It said it was shifting production from western Europe and North America to low-wage economies in Asia and eastern Europe.

Making its results announcement last month, it would not say how many jobs would go. It declined the opportunity to elaborate yesterday.

Coats manufactures about 80 per cent of its garments in the UK. It is expected to bring that down to about 60 per cent by the end of the century.

The group is among several UK garments manufacturers looking to focus manufacturing expansion overseas.

Claremont Garments, a supplier to Marks & Spencer, last month said it would take a £6m charge in 1996 to cover the cost of closing up to four plants and cutting about 500 jobs. It said it would also raise the proportion of clothes made abroad from 10 per cent to 25 per cent.

In a more dramatic move, Dewhirst, another M&S supplier, last week disclosed plans to raise the proportion of garments manufactured overseas to 50 per cent by 2000. Last year, 27 per cent of its clothes were made in overseas factories – in Morocco and Malaysia. It plans to open a plant in Indonesia by next year.

The attraction of moving abroad is cheaper labour costs. For example, in eastern Europe, labour costs are only 15 to 25 per cent of those in the UK, while Asian labour cost are 4 per cent of the UK's.

The possibility of a future Labour government in the UK introducing a minimum wage above £4 an hour is also an influence. On average, UK textile workers are paid between £2 and £3 an hour in basic wages, before productivity incentives.

# Lower prices hit earnings at Texas Instruments

By Louise Kehoe in San Francisco

An unprecedented decline in memory chip prices and lower earnings from patent royalty agreements sharply reduced Texas Instruments' first-quarter earnings, which were well below Wall Street estimates.

The US semiconductor and electronics manufacturer reported net income of $153m, or 84 cents a share, down from $230m or $1.21 a share in the same period last year. Analysts had been anticipating earnings of about $1 a share.

Revenues were $3.1bn, up 7 per cent from $2.9bn in the first quarter of 1995, but down from a record $3.6bn in the fourth quarter of 1995.

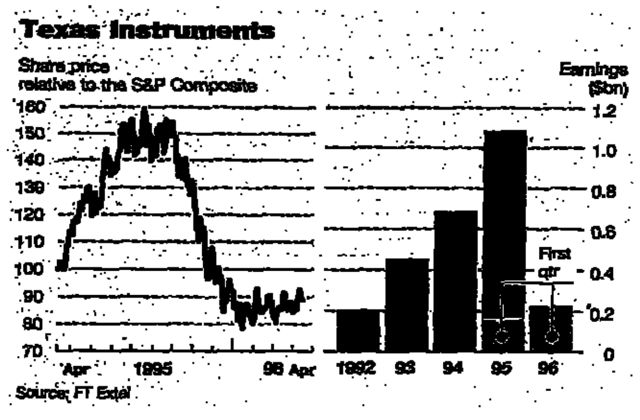
TI is the largest US producer of dynamic random access memory chips, data storage devices used in all types of computer, but prices have dropped by 60 per cent since the beginning of this year, and continue to be volatile.

Memory chip prices have dropped due to a build-up of excess stocks held by personal computer makers, whose sales did not live up to expectations over Christmas, said Mr Mark Giudici of Dataquest, a market research group.

TI said sales of other semiconductor products, in particular digital signal processors, grew strongly.

Overall, semiconductor revenues increased compared with the same period of 1995 but dropped on the fourth quarter.

Patent royalties, another significant source of income from TI's semiconductor business, also dropped in the first quarter. Licensing agreements with Samsung, the leading Korean D-RAM manufacturer, as well as certain other Japanese and Korean chip makers, which together produced income of $108m in the fourth quarter of 1995, have expired. TI is currently negotiating renewals and has announced a new agreement with Oki of Japan.



Source: FT Extel

TI's digital electronics businesses operated at a loss during the quarter, primarily due to marketing and product development costs. However, the loss narrowed from the fourth quarter of 1995.

TI's defence systems and electronics business maintained stable margins on slightly lower revenues during the first quarter.

The materials and controls unit saw an increase in revenues reflecting strength in the US automotive industry, and TI's sales of mobile computers produced record quarterly revenues for the personal productivity division.

# Reshuffle at Jardine Fleming fund unit

By John Ridding in Hong Kong

Jardine Fleming, the Hong Kong-based investment banking group, is reorganising the top posts at its fund management arm.

Mr Robert Thomas is to resign as managing director of Jardine Fleming Investment Management (JFIM) and Jardine Fleming Asset Management (JFAM). He will remain on the main board of Jardine Fleming Holdings, the parent company.

Mr Mark White, a former director of JFIM and most recently the investment director of Save & Prosper of the UK, becomes chief operating officer of the fund management arm. The group is yet to name a chief investment officer.

Jardine Fleming said the moves were part of a restructuring aimed at reinforcing management and said they had no connection with an investigation into JFAM by the UK's Investment Management Regulatory Organisation (Imro).

Last month, Jardine Fleming confirmed that JFAM, its London-regulated affiliate, was being investigated by the British fund management watchdog concerning compliance issues.

The company has declined to comment on details of the probe, which is thought to involve breaches of internal controls.

The reorganisation at JFIM, which splits the chief operating officer and chief investment officer roles, is an attempt to adapt management to the growth of the company's business.

JFIM has funds of more than US$22bn under management, about three times the value of assets in 1990. After a strong year in 1993, however, the performance of the funds has deteriorated, partly reflecting market conditions.

NEWS DIGEST

# Profits doubled at Mannesmann

Mannesmann, the German engineering, mobile communications and steel pipe conglomerate, more than doubled net earnings last year and announced an increased dividend of DM8 per DM50 nominal share for 1995 after DM6 for 1994. Group profit after tax rose from DM340m to DM701m ($468m), while pre-tax earnings from normal operations increased 52 per cent to DM911m. Earnings per share rose to DM21 from DM15. After payments to minority interests the group transferred DM239m to its reserves.

All divisions operated at a profit. The surplus from telecommunications jumped from DM195m to DM446m, accounting for just over half of overall operating profits. Earnings from the machinery and plant division rose 44 per cent to DM278m, while earnings from motor vehicle parts manufacture fell slightly to DM115m from DM121m. The steel pipe and trading division contributed profits of DM38m, up from DM30m.

The company said it was confident about its performance this year. Telecommunications earnings continued to be strong, while past restructuring was beginning to pay off in the engineering and automotive divisions. These positive developments offset slow growth in Europe on the results of its engineering, steel pipe, trading and auto parts activities.

*Peter Norman, Bonn*

## Japanese credit unions absorbed

Two more Japanese financial institutions are to disappear in the latest indication of the continuing weakness of the country's banking sector. Sanyo and Kemmin Daiwa credit co-operatives, which are virtually insolvent because of non-performing loans, are to be absorbed by Danyo credit co-operative. All three are based in the Hyogo prefecture, centred on Kobe.

Losses from irrecoverable loans at the two institutions are estimated to be about Y16.6bn ($153m), more than a third of their combined total lending, while their joint capital amounts to just Y650m. The difference will be met mainly by a grant from the Deposit Insurance Corporation (DIC), which provides funds to deposit-taking institutions in the event of their failure.

The non-performing loans will be transferred to a bad loan resolution corporation, which is to be established after necessary legislation has been approved by parliament.

Danyo, the third-largest credit union in the Kobe area, will take over the 15 branches of the two failed companies, and their remaining assets and liabilities. Sanyo and Kemmin Daiwa had total deposits of Y54bn and Y28bn respectively.

*Gerard Baker, Tokyo*

## Alcan Aluminium slips

Alcan Aluminium felt the impact of weak North American markets in the first quarter and net profit fell to US$125m, or 53 cents a share, from US$174m or 75 cents a share a year earlier. Revenues dipped 17 per cent to US$2bn from US$2.4bn. The 1995 period included an 11 cents a share after-tax gain from the sale of a US unit. The first quarter was a big upturn from the final quarter of 1995, however, when net profit fell to just US$46m because of a smelter strike in Quebec.

*Robert Gibbens, Montreal*

## COMPANIES AND FINANCE

# Pro Sieben share issue delayed to test US demand

By Frederick Stüdemann in Berlin

Pro Sieben, Germany's third-largest commercial television network, is to delay a share issue to accommodate the wishes of UK and US investors.

The issue, of 35.5 per cent of the shares in Pro Sieben, was planned for the summer. Mr Thomas Kirch, son of the Munich-based media mogul Mr Leo Kirch, holds a stake of 24.5 per cent, while the Rewe food retailing chain owns 40 per cent.

Mr Georg Kofler, Pro Sieben chief executive, said: "Over the course of many conversations with international investors during the past weeks, it has emerged that we can count on great demand for Pro Sieben shares, especially in the US. Due to this, the company has decided to place a considerable portion of the shares in the US market."

Pro Sieben anticipates that 30 to 50 per cent of the publicly-quoted shares will be held by non-German investors.

However, the time needed to prepare such an issue has forced a delay, the company said. Furthermore, it said prospective investors wanted to see the outcome of a reform proposal for Germany's state broadcasting treaty, which is being debated by the regional government. This envisages easing restrictions on ownership of television networks and is due to take effect on January 1 1997.

Pro Sieben also says the delay means it can present investors with the first results from several new projects, including an online service and digital television.

The Pro Sieben network has already attracted a high number of younger viewers. Last year it had a turnover of DM1.5bn ($1bn) and pre-tax profits of DM180m. This year the company expects turnover to rise to DM1.6bn.

The proposed float follows a restructuring of the company, under which Mr Thomas Kirch's stake was reduced from just less than 50 per cent to its present level, and Rewe acquired its stake for an undisclosed sum.

The moves were in part a response to concerns raised by the regulatory authorities about the Kirch family's formidable position within the free-to-air television market. Mr Leo Kirch, who has always maintained he has no involvement with Pro Sieben, effectively controls Germany's second-largest free-to-air network, Sat-1.

In the US, the sale of shares will be conducted according to Rule 144a, which allows for an easier private placement with institutional investors.

Seven banks have been appointed to handle the issue. BHF-Bank and Bayerische Hypotheken-und Wechsel-Bank have been named as joint lead managers. The other nominated banks are Salomon Brothers, Commerzbank, CS First Boston, DG Bank and Goldman Sachs International.

■ Optus, Australia's second long-distance and mobile telecommunications group, said it has completed a A$300m (US$237m) rights issue, with all of its mixture of corporate and institutional shareholders maintaining their respective stakes, writes Nikki Tait in Sydney.

Among the companies putting up funds were the UK's Cable & Wireless, which retains a 24.5 per cent holding, and Australia's Mayne Nickless (25 per cent). BellSouth of the US, the AMP Society, National Mutual and the AIDC telecommunications fund members are the remaining shareholders.

# Volvo takes a long view from atop its cash pile

## Disposals have freed chairman Sören Gyll to refocus the car, truck and bus maker, writes Haig Simonian

Awash in liquidity from a stream of disposals, Volvo's cash pile should swell with the sale later this year of its 14 per cent stake in Pharmacia-Upjohn, the pharmaceuticals group.

The extra cash – the drugs stake is worth about SKr19bn ($2.8bn) – should help Mr Sören Gyll, Volvo's chairman, to turn the once-sprawling concern into the focused motor industry and engineering company he wanted following the collapse of merger talks with Renault in late 1993.

Recent and ongoing disposals, including the forthcoming transfer of Swedish Match, a subsidiary, to shareholders, have gone a long way to refocus the group. About half Volvo's sales of SKr172bn in 1995 came from cars. Trucks, buses and construction equipment accounted for most of the rest, with the balance coming from marine engines and aerospace.

With cash in the bank and more on the way, Mr Gyll says he is concentrating on shaping the strategy for Volvo's three core businesses: cars, trucks and buses, and construction equipment.

He stressed Volvo was not about to go on a spending spree. But he made clear that executives from all three sectors were doing their homework to prepare for acquisitions if opportunities arose.

Mr Gyll prefers to discuss broad strategy rather than immediate growth – whether organic or by acquisition. And he stresses any takeovers will be in buses or construction equipment, two industries which remain relatively unconcentrated, rather than in cars or trucks.

Volvo has already splashed out on both. In March 1995, it spent $573m to buy back the 50 per cent share in its construction vehicles joint venture held by Clark Equipment of the US.

Although Volvo Construction Equipment has little more than 5 per cent of the world market – ranking a distant third behind Caterpillar and Komatsu – Mr Gyll reckons it has considerable potential. For some machinery – such as articulated loaders – its market share already exceeds 40 per cent, he says.

Volvo has also been expanding in buses. Earlier this year, it bought into Merkavim Metal Works, a leading Israeli bus and coach builder.

The previous year, it spent SKr740m on Prévost Car, a leading Quebec-based coach builder, in which the UK's Henly's group has taken a 49 per cent stake. Prévost Car has given Volvo a foothold in North America through its estimated 25 per cent share of the market for heavy tourist coaches.

Combined with acquisitions in Germany, Finland and Denmark, the purchase lifted Volvo Bus Corporation to record sales of 6,835 units last year – 18 per cent up on 1994 – ranking it the world's second biggest producer of heavy-duty buses.

Mr Gyll admits expansion in trucks and cars will be slower than in buses and construction equipment, as growth will have to be organic.

The trucks side is investing heavily to lift output and develop a new Asian leg to complement factories in Europe, the US and South America. New plants are earmarked for India and China, while money is also being spent to raise the number of common parts shared by its different regional products.

Sören Gyll: US production 'always on our agenda', but denies talk of negotiations with Mitsubishi

While trucks have been very profitable, Mr Gyll concedes cars still face an uphill task. Volvo's handicaps of high production costs, relatively low volumes and a limited range have made many analysts sceptical about its long-term independence. Only by raising output significantly will Volvo be able to fund future development programmes once its cash pile runs out, they argue.

Volvo's strategy has been to develop new products, cut costs and raise output. Its new S40 and V40 saloon and station wagon, produced by NedCar, a joint venture with Mitsubishi in the Netherlands, have been well received. They will be followed next year by a new coupe and convertible based on the existing 850 range. And work on a new family of cars to replace the 850 and 900 ranges is well under way. "We are testing them now; they are rolling," says Mr Gyll.

Meanwhile, the group will continue to cut costs, with the loss of more than 2,250 jobs this year, and boost output to reach its target of selling 500,000 cars a year by the end of the decade, compared with 374,000 last year.

Mr Gyll admits that expenditure on new products, higher output and job cuts will continue to overshadow Volvo's car earnings for the next two quarters. They will follow the poor figures of the final quarter of last year, when the car division reported a SKr841m operating loss, compared with a SKr700m profit in the same period in 1994.

New cars and lower costs will not be enough, however, to lighten Volvo's dependence on the US, where a quarter of its cars are sold. But while a large proportion of its revenues are in dollars, its expenses are mainly in Swedish kronor or D-Marks. This creates a currency mismatch which can play havoc with earnings, as happened last year when the dollar weakened and the D-Mark and, to a lesser extent, the krona, strengthened.

The solution, chosen by rivals such as Mercedes-Benz and BMW, is to manufacture in the US. With Volvo and Mitsubishi already working together in the Netherlands, analysts have speculated they might do the same elsewhere. Mitsubishi's existing US plant will have spare capacity after a supply deal with Chrysler expires in 1999.

Mr Gyll says US production "is always on our agenda", but denies talk that Volvo is negotiating with Mitsubishi.

Even if Volvo were to build cars in the US, doing it with Mitsubishi is not a foregone conclusion, he says. "We could go on our own."

# Finnish and Swedish power groups sign strategic alliance

By Greg McIvor in Stockholm

Imatran Voima (IVO), Finland's biggest energy producer, has unveiled a strategic alliance with Stockholm Energi, Sweden's third largest supplier, increasing the feverish pace of cross-border integration in the newly-deregulated Nordic power market.

The companies signed an agreement for combined production and distribution of electricity and district heating, as well as joint operation and maintenance of power stations.

Mr Kalevi Numminen, IVO chief executive, said the alliance would serve as a springboard for future expansion in Europe.

Stockholm Energi, which has 3.5 per cent of the Nordic power market and is 99 per cent owned by the city of Stockholm, said the IVO link would help it to compete against the dominant 30 per cent Nordic market share of Sweden's leading power generator, state-owned Vattenfall.

Analysts suggested that IVO, which is 98 per cent owned by the Finnish state but has been earmarked for part-privatisation, had been stung by Vattenfall's entry into Finland last year.

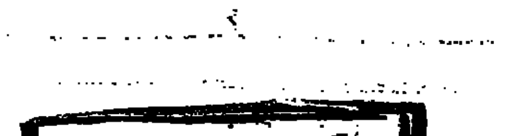
IVO has 12.5 per cent of the Nordic market and last month indicated its regional ambitions by purchasing a 34 per cent stake in Sweden's Gullspangs Kraft, a regional power supplier, from industrial gas group Aga for SKr3.1bn ($461.8m).

IVO executives said the link with Stockholm Energi would give its combined heating and power (CHP) system an important outlet in Sweden, where the technique is under-developed.

They said deregulation was the key factor driving the rapid restructuring in the industry, which this week saw the Swedish city of Malmö sell a 7 per cent stake in power group Sydkraft to Statkraft of Norway.

IVO made profits of FM1.1bn ($234m) last year on sales of FM8.1bn. Stockholm Energi showed a 1995 profit of SKr1bn on turnover of SKr7bn.





هكذا من الأصل



## BOSTON EQUITY INVESTMENT FUND, SICAV

Société d'Investissement à Capital Variable
Registered office: 69, route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B25254

### NOTICE OF MEETING

Notice is hereby given to the Shareholders of Boston Equity Investment Fund, Sicav (the "Company") that an EXTRAORDINARY SHAREHOLDERS' MEETING will be held before notary on April 24, 1996 at 9.30 am local time at the registered office with the following agenda:

**Agenda**

Approval of the merger by absorption of the Company by BOSTON INTERNATIONAL FUND I, SICAV (formerly BOSTON EUROPEAN BOND FUND, SICAV) together with BOSTON INCOME INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON US GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV, all Luxembourg sociétés d'investissement à capital variable with registered office at 69, route d'Esch, L-1470 Luxembourg.

and upon hearing:

(1) the report of the Board of Directors in relation to the merger proposal (the "Merger Proposal");

(2) the audit report prescribed by article 266 of the Luxembourg law on commercial companies and prepared by Coopers & Lybrand, 16 rue Eugène Ruppert, L-2453 Luxembourg;

subject to the approval of the Merger Proposal by the Shareholders of BOSTON INCOME INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON US GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTAN GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV and BOSTON INTERNATIONAL FUND I, SICAV in their respective Extraordinary Shareholders' Meeting:

(i) to state the accomplishment of the formalities prescribed by article 267 of the law on commercial companies;

(ii) to approve and ratify the Merger Proposal published in the Mémorial, Recueil Spécial des Sociétés et Associations;

(iii) to accept the issue of shares of BOSTON INTERNATIONAL FUND I, SICAV in the new compartments as follows:

BOSTON INTERNATIONAL FUND I - EQUITY INVESTMENT, in exchange for the contribution of all assets and liabilities of BOSTON EQUITY INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - EQUITY INVESTMENT for each cancelled Class B share of BOSTON EQUITY INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - INCOME INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON INCOME INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - INCOME INVESTMENT for each cancelled Class B share of BOSTON INCOME INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - INTERNATIONAL EQUITY INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - INTERNATIONAL EQUITY INVESTMENT for each cancelled Class B share of BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - US GOVERNMENT INCOME in exchange for the contribution of all assets and liabilities of BOSTON US GOVERNMENT INCOME FUND SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - US GOVERNMENT INCOME for each cancelled Class B share of BOSTON US GOVERNMENT INCOME FUND, SICAV;

BOSTON INTERNATIONAL FUND I - PACIFIC GROWTH INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - PACIFIC GROWTH INVESTMENT for each cancelled Class B share of BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - ARGENTINE INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON ARGENTINE INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - ARGENTINE INVESTMENT for each cancelled Class B share of BOSTON ARGENTINE INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - GLOBAL CAPITAL APPRECIATION, in exchange for the contribution of all assets and liabilities of BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - GLOBAL CAPITAL APPRECIATION for each cancelled Class B share of BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV;

BOSTON INTERNATIONAL FUND I - STRATEGIC INCOME in exchange for the contribution of all assets and liabilities of BOSTON STRATEGIC INCOME FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - STRATEGIC INCOME for each cancelled Class B share of BOSTON STRATEGIC INCOME FUND, SICAV;

Resolutions regarding the foregoing items on the agenda require a quorum of at least 50% of the shares issued and outstanding. They will be adopted at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote.

The Shareholders on record at the date of the meeting are entitled to vote or give proxies.

Proxies should arrive at the registered office of the Company at least 48 hours before the meeting.

The following documents are at the Shareholders' disposal for examination at the registered office of the SICAV (copies may be obtained without cost):

- the Merger Proposal;
- the three last annual financial reports with management reports of BOSTON EQUITY INVESTMENT FUND, SICAV, BOSTON INCOME INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON US GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV and BOSTON EUROPEAN BOND FUND, SICAV;
- the reports of the Board of Directors of BOSTON EQUITY INVESTMENT FUND, SICAV, BOSTON INCOME INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON US GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV and BOSTON EUROPEAN BOND FUND SICAV on the Merger Proposal;
- the report of the independent auditor, Coopers & Lybrand, with respect to the Merger Proposal.

*By order of the Board of Directors*

## BOSTON INCOME INVESTMENT FUND, SICAV

Société d'Investissement à Capital Variable
Registered office: 69, route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B25253

### NOTICE OF MEETING

Notice is hereby given to the Shareholders of Boston Income Investment Fund, Sicav (the "Company") that an EXTRAORDINARY SHAREHOLDERS' MEETING will be held before notary on April 24, 1996 at 10.00am local time at the registered office with the following agenda:

**Agenda**

Approval of the merger by absorption by the Company of BOSTON INTERNATIONAL FUND I, SICAV (formerly BOSTON EUROPEAN BOND FUND, SICAV) together with BOSTON EQUITY INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON US GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV, all Luxembourg sociétés d'investissement à capital variable with registered office at 69, route d'Esch, L-1470 Luxembourg.

and upon hearing:

(1) the report of the Board of Directors in relation to the merger proposal (the "Merger Proposal");

(2) the audit report prescribed by article 266 of the Luxembourg law on commercial companies and prepared by Coopers & Lybrand, 16 rue Eugène Ruppert, L-2453 Luxembourg;

subject to the approval of the Merger Proposal by the Shareholders of BOSTON EQUITY INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON US GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV and BOSTON INTERNATIONAL FUND I, SICAV in their respective Extraordinary Shareholders' Meeting:

(i) to state the accomplishment of the formalities prescribed by article 267 of the law on commercial companies;

(ii) to approve and ratify the Merger Proposal published in the Mémorial Recueil Spécial des Sociétés et Associations;

(iii) to accept the issue of shares of BOSTON INTERNATIONAL FUND I, SICAV in the new compartments as follows:

BOSTON INTERNATIONAL FUND I - INCOME INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON INCOME INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - INCOME INVESTMENT for each cancelled Class B share of BOSTON INCOME INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - EQUITY INVESTMENT, in exchange for the contribution of all assets and liabilities of BOSTON EQUITY INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - EQUITY INVESTMENT for each cancelled Class B share of BOSTON EQUITY INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - INTERNATIONAL EQUITY INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - INTERNATIONAL EQUITY INVESTMENT for each cancelled Class B share of BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - US GOVERNMENT INCOME in exchange for the contribution of all assets and liabilities of BOSTON US GOVERNMENT INCOME FUND SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - US GOVERNMENT INCOME for each cancelled Class B share of BOSTON US GOVERNMENT INCOME FUND, SICAV;

BOSTON INTERNATIONAL FUND I - PACIFIC GROWTH INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - PACIFIC GROWTH INVESTMENT for each cancelled Class B share of BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - ARGENTINE INVESTMENT in exchange for the contribution of all assets and liabilities of BOSTON ARGENTINE INVESTMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - ARGENTINE INVESTMENT for each cancelled Class B share of BOSTON ARGENTINE INVESTMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND I - GLOBAL CAPITAL APPRECIATION, in exchange for the contribution of all assets and liabilities of BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - GLOBAL CAPITAL APPRECIATION for each cancelled Class B share of BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV;

BOSTON INTERNATIONAL FUND I - STRATEGIC INCOME in exchange for the contribution of all assets and liabilities of BOSTON STRATEGIC INCOME FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND I - STRATEGIC INCOME for each cancelled Class B share of BOSTON STRATEGIC INCOME FUND, SICAV;

Resolutions regarding the foregoing items on the agenda require a quorum of at least 50% of the shares issued and outstanding. They will be adopted at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote.

The Shareholders on record at the date of the meeting are entitled to vote or give proxies.

Proxies should arrive at the registered office of the Company at least 48 hours before the meeting.

The following documents are at the Shareholders' disposal for examination at the registered office of the SICAV (copies may be obtained without cost):

- the Merger Proposal;
- the three last annual financial reports with management reports of BOSTON INCOME INVESTMENT FUND, SICAV, BOSTON EQUITY INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON U.S. GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV and BOSTON EUROPEAN BOND FUND, SICAV;
- the reports of the Board of Directors of BOSTON INCOME INVESTMENT FUND, SICAV, BOSTON EQUITY INVESTMENT FUND, SICAV, BOSTON INTERNATIONAL EQUITY INVESTMENT FUND, SICAV, BOSTON U.S. GOVERNMENT INCOME FUND, SICAV, BOSTON PACIFIC GROWTH INVESTMENT FUND, SICAV, BOSTON ARGENTINE INVESTMENT FUND, SICAV, BOSTON GLOBAL CAPITAL APPRECIATION FUND, SICAV, BOSTON STRATEGIC INCOME FUND, SICAV and BOSTON EUROPEAN BOND FUND on the Merger Proposal;
- the report of the independent auditor, Coopers & Lybrand, with respect to the Merger Proposal.

*By order of the Board of Directors*

## BOSTON BRAZIL INVESTMENT FUND, SICAV

Société d'Investissement à Capital Variable
Registered office: 69, route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B 41963

*Any reference in the present Notice of Meeting to BOSTON INTERNATIONAL FUND II, SICAV is to be understood as a reference to the current BOSTON BRAZIL INVESTMENT FUND, SICAV whose Board of Directors shall submit to the approval of an extraordinary shareholders' meeting of BOSTON BRAZIL INVESTMENT FUND, SICAV, to be held prior to the merger, the change of its name into BOSTON INTERNATIONAL FUND II, SICAV.*

### NOTICE OF MEETING

Notice is hereby given to the Shareholders of Boston Brazil Investment Fund, Sicav (the "Company") that an EXTRAORDINARY SHAREHOLDERS' MEETING will be held before notary on April 24, 1996 at 5.00 pm local time at the registered office with the following agenda:

**Agenda**

Approval of the merger by absorption by the Company of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV and BOSTON MULTI-CURRENCY FUND, SICAV, all Luxembourg sociétés d'investissement à capital variable with registered office at 69, route d'Esch, L-1470 Luxembourg.

and upon hearing:

(1) the report of the Board of Directors in relation to the merger proposal (the "Merger Proposal").

(2) the audit report prescribed by article 266 of the Luxembourg law on commercial companies and prepared by Coopers & Lybrand, 16 rue Eugène Ruppert, L-2453 Luxembourg;

subject to the approval of the Merger Proposal by the Shareholders of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV and BOSTON MULTI-CURRENCY FUND, SICAV in their respective Extraordinary Shareholders' Meeting;

(i) to state the accomplishment of the formalities prescribed by article 267 of the law on commercial companies;

(ii) to approve and ratify the Merger Proposal published in the Mémorial, Recueil Spécial des Sociétés et Associations;

(iii) to accept the issue of shares of BOSTON INTERNATIONAL FUND II, SICAV in the new compartments as follows:

BOSTON INTERNATIONAL FUND II - LIQUIDITY MANAGEMENT, in exchange for the contribution of all assets and liabilities of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND II - LIQUIDITY MANAGEMENT for each cancelled Class B share of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND II - MULTI-CURRENCY in exchange for the contribution of all assets and liabilities of BOSTON MULTI-CURRENCY FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND II - MULTI-CURRENCY for each cancelled Class B share of BOSTON MULTI-CURRENCY FUND, SICAV.

Resolutions regarding the foregoing items on the agenda require a quorum of at least 50% of the shares issued and outstanding. They will be adopted at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote.

The Shareholders on record at the date of the meeting are entitled to vote or give proxies.

Proxies should arrive at the registered office of the Company at least 48 hours before the meeting.

The following documents are at the Shareholders' disposal for examination at the registered office of the SICAV (copies may be obtained without cost):

- the Merger Proposal;
- the three last annual financial reports with management reports of BOSTON BRAZIL INVESTMENT FUND, SICAV, BOSTON LIQUIDITY MANAGEMENT FUND, SICAV and BOSTON MULTI-CURRENCY FUND, SICAV;
- the reports of the Board of Directors of BOSTON BRAZIL INVESTMENT FUND, SICAV, BOSTON LIQUIDITY MANAGEMENT FUND, SICAV and BOSTON MULTI-CURRENCY FUND, SICAV on the Merger Proposal;
- the report of the independent auditor, Coopers & Lybrand, with respect to the Merger Proposal.

*By order of the Board of Directors*

## BOSTON LIQUIDITY MANAGEMENT FUND; SICAV

Société d'Investissement à Capital Variable
Registered office: 69, route d'Esch, L-1470 Luxembourg
R.C. Luxembourg B 25257

### NOTICE OF MEETING

Notice is hereby given to the Shareholders of Boston Liquidity Management Fund, Sicav (the "Company") that an EXTRAORDINARY SHAREHOLDERS' MEETING will be held before notary on April 24, 1996 at 4.00 pm local time at the registered office with the following agenda:

**Agenda**

Approval of the merger by absorption of the Company by BOSTON INTERNATIONAL FUND II, SICAV (formerly BOSTON BRAZIL INVESTMENT FUND, SICAV) together with BOSTON MULTI-CURRENCY FUND, all Luxembourg sociétés d'investissement à capital variable with registered office at 69, route d'Esch, L-1470 Luxembourg.

and upon hearing:

(1) the report of the Board of Directors in relation to the merger proposal (the "Merger Proposal"),

(2) the audit report prescribed by article 266 of the Luxembourg law on commercial companies and prepared by Coopers & Lybrand, 16 rue Eugène Ruppert, L-2453 Luxembourg;

subject to the approval of the Merger Proposal by the Shareholders of BOSTON MULTI-CURRENCY FUND, SICAV and BOSTON INTERNATIONAL FUND II, SICAV in their respective Extraordinary Shareholders' Meeting;

(i) to state the accomplishment of the formalities prescribed by article 267 of the law on commercial companies;

(ii) to approve and ratify the Merger Proposal published in the Mémorial, Recueil Spécial des Sociétés et Associations;

(iii) to accept the issue of shares of BOSTON INTERNATIONAL FUND II, SICAV in the new compartments as follows:

BOSTON INTERNATIONAL FUND II - LIQUIDITY MANAGEMENT, in exchange for the contribution of all assets and liabilities of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND II - LIQUIDITY MANAGEMENT for each cancelled Class B share of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV;

BOSTON INTERNATIONAL FUND II - MULTI-CURRENCY in exchange for the contribution of all assets and liabilities of BOSTON MULTI-CURRENCY FUND, SICAV in the proportion of 1 new Class B share of BOSTON INTERNATIONAL FUND II - MULTI-CURRENCY for each cancelled Class B share of BOSTON MULTI-CURRENCY FUND, SICAV.

Resolutions regarding the foregoing items on the agenda require a quorum of at least 50% of the shares issued and outstanding. They will be adopted at the majority of 2/3 of the shares present or represented at the Meeting. Each share is entitled to one vote.

The Shareholders on record at the date of the meeting are entitled to vote or give proxies.

Proxies should arrive at the registered office of the Company at least 48 hours before the meeting.

The following documents are at the Shareholders' disposal for examination at the registered office of the SICAV (copies may be obtained without cost):

- the Merger Proposal;
- the three last annual financial reports with management reports of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV, BOSTON MULTI-CURRENCY FUND, SICAV and BOSTON BRAZIL INVESTMENT FUND, SICAV;
- the reports of the Board of Directors of BOSTON LIQUIDITY MANAGEMENT FUND, SICAV, BOSTON MULTI-CURRENCY FUND, SICAV and BOSTON BRAZIL INVESTMENT FUND, SICAV on the Merger Proposal;
- the report of the independent auditor, Coopers & Lybrand, with respect to the Merger Proposal.

*By order of the Board of Directors*

## BOSTON BRAZIL INVESTMENT FUND

Société d'Investissement à Capital Variable
à Compartiments Multiples
RC Luxembourg B 41.963
69 route d'Esch
Luxembourg

### NOTICE OF MEETING

Notice is hereby given to the Shareholders of BOSTON BRAZIL INVESTMENT FUND, SICAV that an extraordinary shareholders' meeting shall be held before notary, at 69 route d'Esch, on April 24, 1996 at 3.30 p.m. local time with the following agenda:

1. Amendment of Article 1 to replace the current name by "BOSTON INTERNATIONAL FUND II, SICAV".
2. Amendment of Article 3 sentence 1 to be reworded as follows:

   **"The object of the Company is to place the funds available to it in various securities, money market instruments, deposits, liquid assets and other financial instruments, with the purpose of spreading investment risk and affording its shareholders the results of the management of the Company's portfolio".**
3. Amendment of Article 5 paragraph 3 to be reworded as follows:

   **"The initial subscribed capital was one million five hundred thousand (1.500.000.) US Dollars divided into fifty thousand (50.000) fully paid Class B shares of no par value of Boston Brazil Investment Fund - Equity, currently Boston International Fund II - Brazil Equity".**
4. Amendment of Article 5 paragraph 7 to start the paragraph with the following sentence "Shares are issued in registered book entry form" and to replace the reference to "four decimal places" by a reference to "three decimal places".
5. Amendment of Article 11 to delete the third paragraph.
6. Amendment of Article 12 paragraph 2 to complete it in fine by "except as otherwise agreed upon with the creditors".
7. Amendment of Article 16 paragraph 5 to substitute the reference to "fifteen days" by a reference to "five business days".
8. Amendment of Article 17 paragraph 2 line 11 to delete the reference "In Brazil" and to replace it by "...or is a holiday in Luxembourg or elsewhere".
9. Amendment of Article 17 paragraph 6 to be read as follows:

   **"The value of the assets of the Company is determined for each Class of shares of each Subfund pursuant to the following rules which may be applied to one or several Subfunds, depending on the specific investment policy of the relevant Subfund and subject to the valuation guidelines that the Board of Directors shall determine from time to time".**
10. Amendments of Article 17 paragraph 6 point 1) to be completed in fine as follows:

    **"1) Securities listed on an official stock exchange or traded on another organized market or on an organized over-the-counter market may also be valued on the base of the last known sales price. If the same security is quoted on different markets, the quotation of the main market for this security will be used. If there is no relevant quotation or if the quotations are not representative of the fair value, the evaluation will be done in good faith by the Board of Directors or its designee with a view to establishing the probable sales price for such securities; unlisted securities are valued on the basis of their probable sales price as determined in good faith by the Board of Directors or its delegate."**
11. Amendment of Article 17 paragraph 6 point 4 to add in fine:

    **"Money market instruments held in certain Subfunds may be valued on the basis of the last available official quotation".**
12. Amendments of Article 17 paragraph 6 to add in fine the following paragraphs"

    **7) certificates of deposit held in certain Subfunds may be valued at their market value; other liquid assets are valued at their nominal value plus accrued interest;**

    **8) forward contracts are valued at the mid-market exchange rate prevailing on the Valuation Date for the remaining period to maturity of the contracts; such valuation is based upon the world-wide interbank currency markets".**
13. Amendment of Article 17 paragraph 7 to be reworded as follows:

    **"For the assets which are denominated in the Subfund's Based Currency the conversion shall be done on the basis of the mid-market exchange rate or on the basis of the Median Exchange Rate (as defined in the Prospectus) for such currency on the Valuation Date pursuant to the Board of Directors' decision.**
14. Amendment of Article 18 paragraph 1 to replace the reference to "eight business days" by a reference to "five business days".
15. Amendment of Article 19 paragraph 1 to be reworded as follows"

    **"The Company shall bear all fees connected with its establishment as well as the fees to be paid to the Investment Advisor, the Investment Manager, the Custodian, the Administrative Agent, and the Registrar and Transfer Agent as well as any fees due to any other services provider appointed by the Board of Directors".**
16. Amendment of Article 23 paragraph 2 and 3 to be reworded as follows:

    **"A Subfund may be terminated by resolution of the Board of Directors of the Company if the Net Asset Value of a Subfund is below US$10.000.000.- or its equivalent in any other currency or in the event of special circumstances beyond its control, such as political, economic, military emergencies. In such events, the assets of the Subfund will be realized, the liabilities discharged and the net proceeds of realization distributed to shareholders in the proportion to their holding of shares in that Subfund. In such event, notice of the termination of the Subfund will be given in writing to registered shareholders and will be published in the Luxemburger Wort in Luxembourg and in other newspapers circulating in jursidictions where the Company is registered as the Directors may determine. No shares shall be redeemed or converted after that of the decision to liquidate a Subfund.**

    **A Subfund may be merged with another Subfund by resolution of the Board of Directors of the Company if the value of its net assets is below US$ 10.000.000.- or its equivalent in any other currency or in the event of special circumstances beyond its control, such as political, economic or military emergencies. In such events, notice of the merger will be given in writing to the registered shareholders and will be published in the Luxemburger Wort in Luxembourg and in other newspapers circulating in jurisdictions in which the Company is registered as the Directors may determine. Each shareholder of the relevant Subfund shall be given the possibility, within a period of one month as of the date of the publication or the notice, to request either the repurchase of its shares, free of any charge, or the exchange of its shares, free of any charge, against shares of any other Subfund not concerned by the merger. At the expiry of this one month's period, any shareholder which did not request the repurchase or the exchange of his shares shall be bound by the decision relating to the merger".**
17. Amendment of Article 23 to be completed in fine by the following paragraphs"

    **"A Subfund may be contributed to another Luxembourg investment fund by resolution of the Board of Directors of the Company in the event of special circumstances beyond its control such as political, economic or military emergencies or if the Board should conclude, in light of prevailing market or other conditions, including conditions that may adversely affect the ability of a Subfund to operate in an economically efficient manner, and with due regard to the best interests of the shareholders, that a Subfund should be contributed to another fund. In such events, notice will be given in writing to registered shareholders and will be published in the Luxemburger Wort as well as in such other newspapers as determined from time to time by the Board of Directors. Each shareholder of the relevant Subfund shall be given the possibility within a period of one month as of the date of the publication or the notice to request, free of any charge, the repurchase of its shares. At the close of such period, the contribution shall be binding for all shareholders who did not request a redemption. In the case of a contribution to a mutual fund, however, the contribution will be binding only on shareholders who expressly agreed to the contribution. When a Subfund is contributed to another Luxembourg investment fund, the valuation of the Subfund's assets shall be verified by an auditor who shall issue a written report at the time of the contribution.**

    **A Subfund may be contributed to a foreign investment fund only when the relevant Subfund's shareholders have unanimously approved the contribution or on the condition that only the shareholders who have approved such contribution are effectively transferred to that foreign fund."**
18. To resolve that the Class B shares of BOSTON BRAZIL INVESTMENT FUND - EQUITY are becoming Class B shares of BOSTON INTERNATIONAL FUND II - BRAZIL EQUITY.

The resolutions - except the resolution 18 - must be passed with a minimum quorum of 50% of the issued capital by a majority of 2/3 of the votes cast at the meeting.

The shareholders on record at the date of the meeting are entitled to vote or give proxies.

Proxies should arrive at the registered office of the Company at least 48 hours before the meeting.

By order of the Board of Directors

## BOSTON EUROPEAN BOND FUND

Société d'Investissement à Capital Variable
RC Luxembourg B 42.216
69 route d'Esch
Luxembourg

### NOTICE OF MEETING

Notice is hereby given to the shareholders of BOSTON EUROPEAN BOND FUND, SICAV that an extraordinary shareholders' meeting shall be held before notary, at 69 route d'Esch, on April 24, 1996 at 9.00 a.m. local time with the following agenda:

1. Transformation of BOSTON EUROPEAN BOND FUND into an umbrella structure (SICAV à compartiments multiples) to be named BOSTON INTERNATIONAL FUND I, SICAV and subsequent amendments of the articles of incorporation as hereinbelow described.
2. Amendment of Article 1 to replace the currency name by "Boston International Fund I, Sicav"
3. Amendment of Article 5 paragraph 1 to substitute the reference to "the net assets of the Fund" by a reference to "the net assets of all Subfunds".
4. Amendment of Article 5 paragraph 2 to replace the reference to "ECU" by a reference to "US Dollars".
5. Amendment of Article 5 paragraph 3 to substitute "will be" by "was".
6. Amendment of Article 5 paragraph 7 to replace the reference to "four decimal places" by a reference to "three decimal places".
7. Amendment of Article 5 to add in fine the following paragraph:

   **"Shares may be of different Subfunds as the Board of Directors shall determine and the proceeds of the issue of shares of each Subfund shall be invested pursuant to Article 3 hereof in transferable securities corresponding to such geographical areas, industrial sectors or monetary zones and to such specific types of equity or debt securities as the Board of Directors shall from time to time determine".**
8. Amendment of Article 7 paragraph 5 sentence 1 to be reworded as follows

   **"Each share of each Class in each Subfund is entitled to one vote regardless of the Net Asset Value of such share within the relevant Class and Subfund"**
9. Amendment of Article 7 to add in fine the following paragraph :

   "Resolutions concerning the interests of the shareholders of the Fund shall be taken in a general meeting and resolutions concerning the particular rights of the shareholders of one specific Subfund shall be taken by that Subfund's General meeting".
10. Amendment of Article 11 paragraph 3 to replace the reference to **"non-European OECD countries"** by a reference to **"North and South America, Asia, Africa, Australia or New Zealand"**.
11. Amendment of Article 11 paragraph 4 to be reworded as follows.

    **"In accordance with Article 43 of the law of 30 March 1988 relating to undertakings for collective investments, the Fund may invest up to 100% of the net assets of each Subfund in transferable securities issued or guaranteed by an E.U. Member State, its local authorities or by an OECD Member State or by public international bodies of which one or more E.U. Member States are members or by the Argentine government on the condition that the respective Subfund's net assets are diversified on a minimum of six separate issues, and each issue may not account for more than 30% of the total net assets of the Subfund."**
12. Amendment of Article 11 paragraph 5 line 1 to insert the reference to **"more than 5% of the net assets of each Subfund"**.
13. Amendment of Article 11 to complete it in fine by the following paragraph:

    **"In addition, the Board of Directors shall be empowered to create at any time new Subfunds investing in transferable securities".**
14. Amendment of the heading of Article 16 which shall read **"Redemption and Conversion of shares"**.
15. Amendment of Article 16 paragraph 3 line 2 to read:

    **"...Net Asset Value for the relevant Class of the relevant Subfund".**
16. Amendment of Article 16 paragraph 5 to substitute the reference to "ECU" by a reference to **"the Subfund Base Currency"**.
17. Amendment of Article 16 last paragraph to substitute **"the total net assets of the Fund"** by **"the total net assets of a Subfund"**.
18. Amendment of Article 16 in fine to add the following paragraph :

    **"Any shareholder may request conversion of all or part of his shares, with a minimum amount of shares which shall be determined by the Board of Directors from time to time, into shares of any Class of the same Subfund or of any other Subfund, in each case at the respective Net Asset Value of the shares being sold and the shares being purchased quoted on the day of conversion, by written instructions addressed to the registered office of the Fund or at the office of the person or entity designated by the Fund as its agent for the conversion of shares. The relevant Net Asset Value for each Class of shares of each Subfund shall be the Net Asset Value determined on the Valuation Date following the date of receipt of the conversion request or, if such date is a Valuation Date, the Net Assets value determined on the subsequent Valuation Date. Such conversion shall be free of any charge except that normal costs of administration may be levied."**
19. Amendment of Article 17 paragraph 2 and paragraph 3 indent 1-2-3-4, paragraph 6, 8 and 9 to substitute, where appropriate, the reference to "the Fund" by a reference to "Subfund" and to add, where appropriate, a reference to "each" or "such Subfund" in paragraph 10.
20. Amendments of Article 17 paragraph 3 line 3 to read :

    **"... the issue, redemption and conversion thereof...".**
21. Amendment of Article 17 paragraph 5 to be reworded as follows :

    **"The Net Asset Value of each Class of shares of each Subfund shall be expressed in the currency of the relevant Subfund as a per share figure and shall be determined on any Valuation Date by dividing the value of the net assets of the Subfund corresponding to each Class of shares, being the value of the assets of the Subfund less its liabilities at the time determined by the Board of Directors or its duly authorised designee on the Valuation Date, by the number of shares of the relevant Subfund then outstanding in such Class."**
22. Amendment of Article 17 paragraph 6 point 1) to replace the reference to in non-European OECD countries" by a reference to **"in North or South America, Asia, Africa, Australia or New Zealand"** :
23. Amendment of Article 17 paragraph 7 to substitute the reference to **"ECU"** by a reference to **"the Subfund Base Currency"**.
24. Amendment of Article 19 paragraph 1 to be reworded as follows:

    **"The Fund shall bear all fees connected with its establishment as well as the fees to be paid to the Investment Manager, the Investment Advisor, te Custodian, the Administrative Agent and the Registrar and Transfer Agent as well as any fees due to any other service provider appointed by the Board of Directors".**
25. Amendments of Article 19 to complete it in fine by the following paragraphs:

    **"Any costs incurred by the Fund which are not attributable to a specific Subfund will be charged to all Subfunds in proportion to their net assets. Each Subfund will be charged with all cost and expenses directly attributable to it.**

    **The Fund shall be liable for debts to its creditors on all its assets, regardless of the particular Subfund to which the debts may relate, except as otherwise agreed upon with the creditors.**

    **For the purpose of the relations between the shareholders, each Subfund will be deemed to be a separate entity with, but not limited to, its own contribution, capital gains, losses, charges and expenses."**
26. Amendment of Article 20 to delete the last sentence of paragraph 1 and to add a 2nd paragraph worded as follows:

    **"Financial statements for each Subfund shall be established in the currency in which it is denominated. To establish the balance sheet of the Fund, those different financial statements will be added together after conversion into the currency of the capital of the Fund."**
27. Amendment of Article 22 paragraph 1 sentence 2 and 3 to substitute the reference to "ECU" respectively by a reference to "US Dollar (sentence 2) and to the Subfund Base Currency (sentence 3)".
28. Amendment of Article 22 paragraph 1 sentence 2 and paragraph 2 to substitute the reference to "the Fund" by a reference in paragraph 1 sentence 2 to "any Subfund" and in paragraph 2 to "the Subfunds".
29. Amendment of the hearing of Article 23 to be read **"Liquidation of the Fund or of a Subfund"** and of Article 23 itself to be completed as follows:

    **"A Subfund may be terminated by resolution of the Board of Directors of the Fund if the Net Asset Value of a Subfund is below US$ 10.000.000.- or its equivalent in any other currency or in the event of special circumstances beyond its control, such as political, economic, military emergencies., In such events, the assets of the Subfund will be realized, the liabilities discharged and the net proceeds of realization distributed to shareholders in the proportion to their holding of shares in that Subfund. In such event, notice of the termination of the Subfund will be given in writing to registered shareholders and will be published in the Luxemburger Wort in Luxembourg and in other newspapers circulating in jurisdictions where the Fund is, registered as the Directors may determine. No shares shall be redeemed or converted after the date of the decision to liquidate a Subfund.**

    **A Subfund may be merged with another Subfund by resolution of the Board of Directors of the Fund if the value of its net assets is below US$ 10.000.000.- or its equivalent in any other currency or in the event of special circumstances beyond its control, such as political, economic or military emergencies. In such events, notice of the merger will be given in writing to the registered shareholders and will be published in the Luxemburger Wort in Luxembourg and in other newspapers circulating in jurisdictions in which the Fund is registered as the Directors may determine. Each shareholder of the relevant Subfund shall be given the possibility, within a period of one month as of the date of the publication or the notice, to request either the repurchase of its shares, free of any charge, or the exchange of its shares, free of any charge, against shares of any other Subfund not concerned by the merger. At the expiry of this one month's period, any shareholder which did not request the repurchase or the exchange of his shares will be bound by the decision-relating to the merger.**

    **A Subfund may be contributed to another Luxembourg investment fund by resolution of the Board of Directors of the Fund in the event of special circumstances beyond its control such as political, economic or military emergencies or if the Board should conclude, in light of prevailing market or other conditions, including conditions that may adversely affect the ability of a Subfund to operate in an economically efficient manner, and with due regard to the best interests of the shareholders, that a Subfund should be contributed to another fund. In such events, notice will be given in writing to registered shareholders and will be published in the Luxemburger Wort as well as in such other newspapers as determined from time to time by the Board of Directors. Each shareholder of the relevant Subfund shall be given the possibility within a period of one month as of the date of the publication or the notice to request, free of any charge, the repurchase of its shares. At the close of such period, the contribution shall be binding for all shareholders who did not request a redemption. In the case of a contribution to a mutual fund, however, the contribution will be binding only on shareholders who expressly agreed too the contribution. When a Subfund is contributed to another Luxembourg investment fund, the valuation of the Subfund's assets shall be verified by an auditor who shall issue a written report at the time of the contribution.**

    **A Subfund may be contributed to a foreign investment fund only when the relevant Subfund's shareholders have unanimously approved the contribution or on the condition that only the shareholders who have approved such contribution are effectively transferred to that foreign fund."**
30. To resolve that the Class B shares of BOSTON EUROPEAN BOND FUND are becoming Class B shares of BOSTON INTERNATIONAL FUND I - EUROPEAN BOND.

The resolutions - except resolution 30 - must be passed with a minimum quorum of 50% of the issued capital by a majority of 2/3 of the votes cast at the meeting.

The shareholders on record at the date of the meeting are entitled to vote or give proxies.

Proxies should arrive at the registered office of the Company at least 48 hours before the meeting.

By order of the Board of Directors

# The fund manager as a herd animal

## Despite varying liabilities, pension fund managers allocate their assets similarly, writes Norman Cohen

FUND MANAGEMENT

It is in the make-up of certain kinds of animals including sheep and zebras to herd and it is partly to this trait that they owe their survival.

But is there a similar trait which surfaces among fund managers when it comes to making asset allocation decisions? The question arises because of the striking similarity of the asset allocation among UK pension schemes, despite very different liability structures.

Data from WM Company, the performance measurement service, show that "super mature" pension schemes – those whose current and deferred pensioners vastly outnumber their contributing members – mostly allocate assets in pretty much the same way as "immature" schemes with the opposite mix of members.

Of 154 large schemes surveyed by WM, all but six have at least 70 per cent of funds in "real" assets, that is, equities or property. And the vast majority of these have real assets of more than 80 per cent, including most of those deemed super mature.

Why should this be? After all, the point of funded pension provision is to build up a pot of money. That way, when employees retire, an employer is sure of having enough cash on hand to pay benefits.

The only way to be certain the cash is there is to invest in, say, UK government gilts which pay guaranteed interest income. Equities provide higher returns long-term but are somewhat unpredictable. Dividends can be slashed or omitted and companies can go bust.

Moreover, selling equities to raise needed cash may not be a reasonable option at a time when stock prices generally are collapsing. That is why conventional wisdom is to invest in equities to meet long-term liabilities for younger workers, but in bonds for most of the liabilities which have to be met immediately.

It is not as though fund managers or pension scheme trustees are unaware of the asset-liability mismatch. Ms Susan Douse, a partner at consulting actuaries Watson Wyatt, says that roughly 40 per cent of her scheme clients have performed an asset/liability study to discover how great the imbalance really is.

The corporate restructuring which led to swingeing redundancies at many of the UK's largest employers has vastly increased the maturity of the average pension scheme. But at the end of 1995, according to WM, the average UK pension fund had no more in government bonds than it had five years earlier, and only 1.7 percentage points more assets invested in index-linked gilts.

Mr Colin Lever, head of the investment practice at consulting actuaries Bacon and Woodrow, says there may be some sound reasons to have a high proportion of equities in the portfolio of a mature scheme. "You find that even when a scheme is 100 per cent pensioners, it can still go on growing," Mr Lever says.

Also, some employers may be taking a calculated risk when deciding on asset allocation. Mr Gordon Bagot, director of research and consultancy at WM Company, argues that a company which thinks it is going to be around for a long time ought to run its pension scheme to maximise growth, not to provide certainty of cash flow. And that means investing in equities.

"It might be in the long-term interests of the company to take the risk of having to put cash in periodically, he says. An employer whose annual pension contribution rate might be, say, 10 per cent of gross salaries, may find he can cut that to 7 per cent by skewing the mixture in favour of equities.

"But in any given year, that employer might have to put his hand in his pocket for, say, 14 per cent to make up for the shortfall."

But the anecdotal evidence suggests that there is very little of this type of risk assessment going on. Mr Lever argues that if assessments were being carried out, immature schemes would have far higher equity weightings than they now do.

"The only reason they are 80 per cent in equities is because they don't have the nerve to be 100 per cent in equities," he says.

The desire to stick to the consensus has been evident to actuaries for some time, Mr Lever says. "If you do an asset/liability model for a scheme and it tells you to invest 20 per cent in equities and 80 per cent in bonds, the first thing you do is go back to your assumptions to see which ones you should change."

Mr John Gibbon, the in-house investment manager for the British Aerospace pension scheme, which is some 80 per cent invested in equities, concedes that there is some instinct to stick to the consensus. "Consensus develops and its kind of hard to resist it," he says. "If you are wrong (about breaking away) it's hard to defend yourself."

Some fund managers argue that it is the existence of industry-wide calculations of the total return earned by the "average" pension scheme which enforce consensus-driven asset allocation. These act as deterrents to those who deviate on asset allocation.

After all, fund managers are hired and fired according to how they have performed against these benchmarks. And what corporate director cares to explain the hole in the pension fund which has arisen as the result of an atypical asset allocation?

But blaming the benchmarks does no good if one considers the US market. The US has no benchmarks of average returns. Yet, says Mr Chris Nowakowski, president of InterSec, the US-based pensions consultancy, the majority of US pension schemes have an equity/debt mixture of roughly 60/40, regardless of maturity.

"Asset/liability modelling is quite prevalent in the US," Mr Nowakowski says. "But its application is simply not adhered to. They don't deviate very often from 60/40," he says.

Mr Nowakowski thinks he knows the reason why. "The pension manager knows that in any given year, if the S&P 500 cracks, then his job is one the line."

In other words, fund managers and trustees, like sheep and zebras, can prolong their survival through herding.

# FACES

## From Tokyo to Chicago: Liffe on the road

As the first Euroyen contract was traded on London's International Financial Futures and Options Exchange (Liffe) last week, Phillip Bruce, managing director of strategic business development, passed another marker in the exchange's march towards internationalisation, Richard Lapper writes.

Bruce, who has made 25 trips to Tokyo in the course of negotiating the strategic link with the Tokyo International Financial Futures Exchange, has played a central role in forging other overseas link-ups, as well as in developing international contracts, such as the the German bond and money market futures – all pivotal components of the Liffe business.

More than faintly unorthodox by City standards, his education and early career have not hindered his rapid rise through the exchange's ranks. Bruce, who joined in 1983 as a pit observer, had studied engineering at Imperial College. He claims the discipline not only helped him get to grips with complex financial structures, but also equipped him with the mental apparatus to deal with lawyers. Communication skills, acquired during six years teaching English to foreign students in north London, have also come in handy.

The latter have certainly proved useful in developing the Tiffe connection. Those visits to Japan may become less frequent, however, as Liffe's link-up with the Chicago Board of Trade (CBOT) is set to begin later this year. The great advantage of travel to Chicago is that Bruce, a long-time blues and jazz enthusiast, can revisit his favourite haunts – The Kingston Mines and the Blues clubs on Halstead.

## John Thomson in the Standard Life hot seat

John Thomson, named last week as the next investment manager of Britain's Standard Life assurance group, is engagingly modest about the prospect of managing one of Europe's largest investment portfolios, Norma Cohen writes. In July he will succeed Dick Barfield, who is opting for a change in lifestyle after 26 years with the firm.

Standard Life, with some £44bn under management, is Europe's largest mutual life insurer. As its investment chief, Barfield, 48, has been one of the UK's best known shareholder activists, a role Thomson has vowed to continue.

Thomson, who is 46, spent eight years as Barfield's deputy, but unlike his boss, most of his efforts were behind the scenes. His first public foray into the arena of shareholder rights was in 1992, when Standard Life and other institutional investors challenged a Takeover Panel ruling on the acquisition of Worcester, a boiler maker, by Bosch of Germany. The challenge failed, but Thomson notes with satisfaction that no other acquirer has since tried to use Bosch's strategy of offering different terms to management and other shareholders.

Also unlike his predecessor – who, like most life insurance executives, joined as an actuarial trainee – Thomson started out as an economist and investment analyst. He worked for Scottish Investment Trust before joining the Edinburgh-based Standard Life 14 years ago.

It is all a long way from his birthplace in Fiji, and a childhood travelling around the world with his father, who was in the Colonial Service. He spent several years at school in New Zealand, where, he says, he performed the school "haka" before rugby matches with enthusiasm.

He is still known to perform it occasionally during emotional moments. History does not relate whether one of them was last week, when Thomson was unexpectedly thrust into the investment spotlight.

## Trumbull's grumbles on life 'down under'

George Trumbull, the US insurance executive who moved from Cigna to run the AMP Society, Australia's biggest life insurer, two years ago hasn't quite taken to wearing Akubra bush hats. But he did confess to feeling more at home "down under" when AMP released its annual report last week, writes Nikki Tait.

This may have had something to do with a quadrupled profit of A$1.9bn ($1.47bn) – which, in turn, owed much to a happier investment result backed up by generally improved operating performance. That amounted to sweet vengeance: after all, AMP is Australia's biggest stock market investor, and caught Paul Keating's flak last year, when (in the midst of the rumpus over corporate governance standards at Coles Myer) the former prime minister blasted fund-managers for being "donkeys" and "lemmings" in their short-sightedness.

"Let's not mess around with this notion that there's some sort of wise holy grail sitting inside the AMP and National Mutual... These are outfits that normally take their cues weekly, bi-weekly and monthly – there's no long-run strategy for them," ran Keating's harangue.

At the time, the AMP took the criticism on the chin. But last week the 51-year-old Trumbull offered some observations of his own.

For a start, he said, Australia was "overbanked by – ooh – two or even three times". It could also do with a larger population. And, above all, it needed to do something to raise a chronically low savings ratio, one of the weakest in the developed world. For the AMP, this lacuna meant looking to Asian expansion, since "certainly we cannot save our way to prosperity and find ways to grow in Australia".

But even if he is getting the hang of Australia's knockabout public debating style, Trumbull has yet to slip into the local lingo. First, there were invitations to "tea and cookies", and then a passing reference to the AMP's chief actuary and the general counsel as Trumbull's "inside" and his "outside".

A bemused audience, bred local sporting references, struggled. The terminology was, the AMP boss quickly explained, borrowed from American football.

## Rattner in limelight as MGM is auctioned

For Steven Rattner, the Lazard Frères partner who was once billed in a Vanity Fair profile as "the most talked-about investment banker of his generation," publicity may have become a double-edged sword, writes Richard Waters.

As with any successful Wall Street banker, there is the undoubted attraction of having your achievements chronicled in the media. In the 43-year-old Rattner's case, that means a string of deals in the media and telecommunications industries in the past two years.

This week comes the first stage in Rattner's latest multi-billion dollar deal, the auction of film studio MGM on behalf of Crédit Lyonnais (though the banker is quick to add that Lazard's sister bank in Paris is also involved.)

Being a wunderkind of the M&A business can also attract less welcome publicity, though. In an era when most investment bankers studiously avoid the sort of swaggering displays of self-promotion familiar from the 1980s, Rattner's appearance in Vanity Fair seemed glaringly out of tune with the times.

It also riled Felix Rohatyn, the legendary senior Lazard partner, according to New York magazine. No one at Lazard makes much effort to deny reports of the fraught relationship between the two, and Rattner himself bristles at questions about Rohatyn.

Perhaps the response is best left to Rattner's father, George. In a letter that Rattner says he had no hand in, the father wrote to New York magazine earlier this month to protest at the suggestion that his son's reputation is the product of "artful salesmanship".

"Steven grew up during the sixties and seventies and successfully avoided the drug, hippie, and cop-out culture of that era." George Rattner writes. He then describes the younger Rattner's achievements while a reporter for the New York Times, and adds: "When Steven gambled on a career change at age 30, it was without benefit of an MBA, family wealth, or business or social connections."

Standard Life's John Thomson, and the assurance group's Edinburgh head office













هكذا من الأصل

FINANCIAL TIMES

# MARKETS

THIS WEEK



Global Investor / Gerard Baker in Tokyo

## Continuing insular inhibitions

At what point will Japanese investors at last shed their inhibitions and return to foreign capital markets? As the dollar continues its recovery from last year's historic lows, this is the question that will exercise the minds of those who watch the big Japanese institutions. Their stay away from foreign currency assets has been the most startling feature of global capital flows in the last five years.

With the dollar touching Y109=$1 at one point last week, the caution of those investors looks increasingly costly. Badly scarred by their disasters in US investments in the late 1980s, the Japanese life insurers, banks and others have been waiting for the right moment to return to overseas securities. They may already have missed the boat.

They sat out most of last year's sharp rise in the yen when it peaked at Y79=$1. They nibbled slightly as the Japanese currency began to fall, buying Y800bn in US treasuries alone in the third quarter of last year. But they became net sellers again in the last quarter of last year when Japan's financial problems dramatically emphasised the need for relatively liquid funds at home.

In the first quarter of 1996, the early evidence suggests they have indeed been more active overseas.

Data for the first two months of the year showed net Japanese purchases of foreign bonds of Y780bn - more than half of them US treasuries.

But a more detailed analysis shows that these figures are somewhat misleading. The bulk of the activity has been in purchases of Euroyen bonds. The government, which now helpfully gives figures for these transactions, says purchases of Euroyen bonds in the first two months was Y658bn - more than 80 per cent of the total net figure. The interest in US bonds was more than offset by net sales of other non-yen fixed-income securities.

The new fiscal year which began this month will be the time when investors review their allocations. But changes that came into effect governing life assurers' operations are likely to increase their caution, not diminish it.

Until now, funds managed by assurers were pooled, enabling losses in one fund to be offset against gains in another. From this month, however, each fund must be separately managed and accounted for - a move unlikely to encourage risk-taking.

In addition, life assurers have also cut the guaranteed returns promised to investors from a previously punishing 4.5 per cent to 2.5 per cent. With Japanese government bonds this year yielding between 3 and 3.5 per cent, life assurers find themselves in the happy position of being able to meet their liabilities through piling up returns on the least risky of their investments.

True, individual investors' appetite for foreign currency assets has been rising strongly - and changes to rules governing investment trusts will probably accelerate that. But the big institutional funds are still dominated by managers who have had the costs of currency risk dinned into them for five years or more.

What of the longer-term outlook for Japanese buying of overseas securities? One view holds that changes in the Japanese economy are about to herald a long-term shift away from overseas securities markets. In the last year, evidence that the country's current account surplus has been falling sharply has been hardened - it fell by 15 per cent in 1995 to just over $105bn and that seems set to continue. That, of course, means the already meagre long-term outflows from Japan - both direct investment and portfolio investment - should come to an end.

Or does it? The main feature of Japanese overseas direct and portfolio investment over the last decade has in fact been the breakdown of the relationship between the current account balance and long term capital flows.

In the late 1980s, capital outflows soared high above the current account surplus. But in the early 1990s, long term capital has lagged well behind the current account surplus.

Indeed, at the start of the decade the country was in the position of having a surplus on both current and capital accounts.

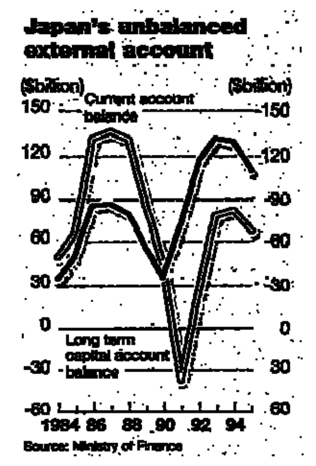
The difference is made up by short-term capital and official transfers. The Bank of Japan's reserves alone have risen by $50bn in the last year.

The significance of all this is that the clear downtrend in the current account surplus holds no real clues for the medium term prospects for capital flows. If Japanese institutions do abandon their caution and decide to head back overseas they will not be restrained by a shrinking trade surplus.

It is certainly theoretically possible for Japanese investors to pour money back overseas, funded by a running down of BoJ reserves and short term private capital inflows.

Whether they will actually choose to do so is, of course another matter.

Japan's unbalanced external account




Source: Ministry of Finance

Total return in local currency to 11/4/96

| | US | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| | % change over period | | | | | |
| **Cash** | | | | | | |
| Week | 0.10 | 0.01 | 0.06 | 0.08 | 0.19 | 0.11 |
| Month | 0.45 | 0.05 | 0.29 | 0.36 | 0.81 | 0.51 |
| Year | 5.88 | 1.63 | 5.06 | 6.94 | 11.44 | 7.56 |
| **Bonds 3-5 year** | | | | | | |
| Week | -1.03 | -0.39 | -0.21 | 0.24 | 0.68 | -0.41 |
| Month | -0.94 | -0.28 | 1.04 | 1.15 | 1.45 | 0.60 |
| Year | 7.36 | 5.75 | 10.84 | 13.57 | 21.25 | 10.47 |
| **Bonds 7-10 year** | | | | | | |
| Week | -2.00 | -0.67 | -0.67 | 0.21 | 0.72 | -0.70 |
| Month | -1.75 | -0.01 | 1.09 | 1.57 | 2.13 | 0.66 |
| Year | 8.30 | 7.63 | 11.61 | 16.68 | 29.77 | 10.50 |
| **Equities** | | | | | | |
| Week | -3.9 | 1.7 | 0.7 | -0.1 | 2.1 | -0.2 |
| Month | -1.5 | 9.3 | 4.4 | 8.0 | 2.4 | 2.5 |
| Year | 27.4 | 29.1 | 26.5 | 16.3 | 3.5 | 22.5 |

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

## First-quarter results get into full swing in US

■ US results: The US first-quarter results season moves into full swing this week with many analysts still ratcheting down their forecasts for corporate profits growth.

The earnings per share of stocks in the Standard & Poor's 500 index will register an average increase of 5.7 per cent for the opening months of the year, according to a compilation of analysts' forecasts by First Call. That compares with an estimate of 7.7 per cent just two weeks ago.

This would be the first time since since the end of 1991 that the quarterly profits of US companies have failed to register year-on-year growth of at least 10 per cent.

The economic slowdown that took hold late last year is likely to have hit the profits of companies in the basic industries the hardest. The earnings of both steel and forest products companies will show falls of 42 per cent, with paper companies off 18 per cent, and nonferrous metals declining 12 per cent, according to First Call. Other cyclical industries to suffer are likely to be carmakers (down 42 per cent), and trucking (down 50 per cent).

Some of the best earnings are likely to come from US airlines, which have rebounded from losses a year ago, brokerage houses (up 80 per cent) and big energy companies (15 per cent). While the earnings growth of US high-technology companies may have slowed, the sector will show positive earnings-per-share comparisons with a year ago: a rise of 2 per cent at semiconductor manufacturers, 12 per cent at software companies and 10 per cent at computer makers, according to the analysts monitored by First Call.

■ Carmakers: Chrysler is expected to report an improvement in first-quarter earnings, helped in part by cost reductions, while Ford Motor is likely to see earnings decline because of high launch costs and lower production levels, analysts said.

Chrysler is expected to report tomorrow that first-quarter earnings rose to $2.35 per fully diluted share, up from $1.78 a year ago.

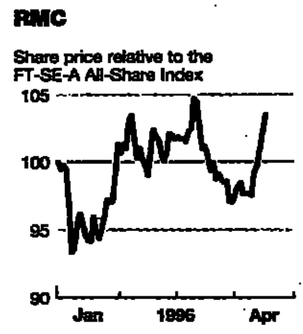
Ford is expected to report on Wednesday that first quarter earnings per share declined to 33 cents fully diluted from $1.44 a year ago. General Motors is due to report the following week.

Mr David Healy, analyst at Burnham Securities, expected that Chrysler would be the only one of the Big Three carmakers to show an improvement in year-on-year results, partly because of the high costs from the launch of a new mini van that dragged down the previous year's profits.

Mr Philip Fricke, analyst at Prudential Securities, said Chrysler's results this year would be boosted by higher margins and fewer outstanding shares. *AFX*

RMC

Share price relative to the FT-SE-A All-Share Index




Source: FT Extel

■ High-tech companies: With several leading corporations scheduled to report quarterly results this week, a broad trend toward slower growth is expected to emerge.

Intel, the world's largest semiconductor chipmaker and the primary supplier of microprocessors to the personal computer industry, reports on its first-quarter report after the close of trading today. Profits are expected to be flat. Analysts are predicting earnings of about 97 cents a share for the quarter, against $1.02 in the same period last year, when the company had a one-time gain of 6 cents a share.

Also reporting today is Sun Microsystems, a leading computer workstation and server manufacturer. Sun's earnings are expected to be about 70 cents a share, up from 54 cents. Growth of 30 per cent is hardly sluggish, but this time last year Sun reported an 87 per cent profit jump.

Microsoft, the world's largest software company, which is due to report its third-quarter results on Thursday, is also expected to show strong, if not spectacular growth.

Analysts are expecting earnings of about 85 cents a share, a 35 per cent increase over the previous year. In the third quarter of fiscal 1995, Microsoft's net profits increased 55 per cent.

IBM, reporting on Wednesday, is also expected to show slower growth. This time last year IBM was emerging from a slump and earnings tripled to $2.12 a share.

For the first quarter of 1996, analysts anticipate earnings in the region of $2.36 a share.

Apple Computer, which is also due to report on Wednesday, has already warned that it is expecting losses of about $700m, including charges for restructuring and writing down the value of excess inventory.

■ Gengold: The South African gold quarterly reporting season commences today when Gengold, the gold mining arm of Gencor, releases its results for the three months ended March 18. The mining houses Gold Fields, Anglovaal and Anglo-American follow on consecutive days.

Overall gold tonnage will be lower than the preceding quarter due largely to days lost over the Christmas period.

■ SmithKline Beecham: Analysts are braced for disappointing growth from SmithKline Beecham in its the UK drug company's first-quarter figures to be published on Thursday.

The main reason for the slowdown is that this year's influenza season has been milder than last year's, which has depressed sales of antibiotics.

There may also be problems with sales of Engerix B, a hepatitis B vaccine, which had a good first quarter in 1995 as a result of a French vaccination programme.

Sales for this year's first quarter could be only slightly higher than last year's £1.7bn at about £1.8bn. Pre-tax profits should grow slightly faster to pass £380m, against last year's £360m, a figure that excludes a £512m exceptional gain for the sale of the company's animal health business in January 1995.

■ RMC: The world's largest concrete company is expected to announce a 15 per cent rise in annual pre-tax profits to £327m on Thursday. The increase is thanks to growth in mainland Europe and the US, as the UK market was fairly flat. This year has got off to a bad start because of cold weather in northern Europe and the construction slowdown in Germany, which accounts for more than half the company's profits.

INTERNATIONAL EQUITIES By Conner Middelmann

## Foreign buying lifts Indian GDRs

The Indian market in global depositary receipts (GDRs) has sharply outperformed the country's underlying stock market in recent months, thanks to heavy buying by foreign investors.

However, with more new issues in the pipeline, some investors doubt that the GDR sector will be able to maintain its current hefty premium - averaging 20 per cent - over the underlying market.

"We feel that current premiums are unsustainable, and will have to come down," said Mr Sam Mahtani, assistant fund manager of Foreign & Colonial's $175m India Fund. "While a modest premium is justified by certain advantages that GDRs confer, I think 5 per cent is a more reasonable level."

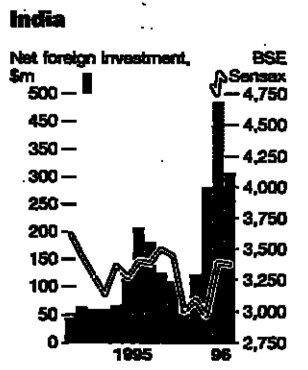
A GDR is a certificate which is issued in registered form by a depository bank and represents ownership of shares held in custody in the equity issuer's home market.

Cumbersome settlement procedures in India have made GDRs an attractive way for international investors to invest in Indian stocks. A GDR can trade at a premium or discount to the underlying share, and in the Indian market these can fluctuate wildly.

Lately, substantial premiums have been building up because international investors have continued buying, and those who own GDRs have not been willing to sell them. For example, GDRs issued by Bajaj Auto are trading at a premium of 33 per cent; Indian Hotels' GDRs stand at a 25 per cent premium, as do Mahindra & Mahindra's.

However, spurred by heavy foreign buying of Indian shares this year, many issuers are queueing up to tap the GDR market. In addition to three new issues earlier this year, many more are rumoured. These include an offering of up to $125m for Grasim, a $100m deal for Mahindra & Mahindra, and an $80m issue for the Calcutta Electric Supply Company, as well as issues for India Cements and the State Bank of India.

India




Source: BZW

"Every day I hear of another company looking to issue GDRs - this supply should compress premiums," said one dealer.

On the other hand, what could limit the erosion of GDR premiums is foreign investors' seemingly insatiable appetite for Indian equities, in spite of the general elections which start on April 27. Indeed, if past performance is anything to go by, the Indian stock market should rally further after the polls, making the elections a buying opportunity.

At any rate, "regardless of the election outcome, the economic reform programme will continue," which is good news for the stock market, said Mr Mahtani.

Moreover, in terms of valuations, "fundamentals remain strong yet the local market is cheap. All the ingredients for a significant stock market rally are there," said Mr Nishit Kotecha, assistant director at BZW. BZW estimates earnings growth of around 29 per cent for the financial year 1995/6, while the current price-earnings ratio is around 14 times.

- Continued monetary easing is also expected to support the stock market in the coming months, while the currency is seen to have stabilised after its erratic movements at the beginning of the year.

## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | FRIDAY APRIL 12 1996 US Dollar Index | %chg since 29/12/95 | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg from 29/12/95 | Gross Div. Yield | THURSDAY APRIL 11 1996 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (81) | 203.97 | 7.3 | 200.10 | 140.11 | 159.45 | 171.64 | 1.0 | 4.05 | 202.27 | 198.10 | 138.71 | 157.87 | 170.44 | 203.97 | 162.68 | 173.66 |
| Austria (25) | 182.68 | 4.7 | 179.22 | 125.49 | 142.81 | 142.65 | 9.9 | 1.59 | 181.44 | 177.70 | 124.43 | 141.61 | 141.45 | 199.28 | 168.11 | 183.55 |
| Belgium (34) | 209.05 | 0.0 | 205.08 | 143.61 | 163.43 | 159.15 | 4.8 | 4.11 | 208.55 | 204.25 | 143.02 | 162.78 | 158.58 | 215.81 | 186.06 | 186.39 |
| Brazil (28) | 153.85 | 11.5 | 150.93 | 105.68 | 120.27 | 280.38 | 13.6 | 2.59 | 149.77 | 146.68 | 102.71 | 116.90 | 273.45 | 170.25 | 109.87 | 110.36 |
| Canada (99) | 159.48 | 7.4 | 156.45 | 109.55 | 124.67 | 156.62 | 6.8 | 2.39 | 159.98 | 156.67 | 109.70 | 124.85 | 157.09 | 159.96 | 134.14 | 135.29 |
| Denmark (30) | 295.07 | 2.2 | 289.47 | 202.69 | 230.67 | 232.90 | 7.0 | 1.93 | 296.06 | 289.96 | 203.03 | 231.07 | 233.34 | 305.17 | 259.41 | 259.41 |
| Finland (24) | 175.78 | -6.0 | 172.44 | 120.75 | 137.41 | 173.56 | 1.8 | 2.88 | 176.79 | 173.14 | 121.24 | 137.98 | 174.14 | 276.11 | 171.73 | 181.51 |
| France (98) | 194.19 | 8.2 | 190.50 | 133.40 | 151.81 | 155.49 | 13.0 | 3.02 | 194.15 | 190.14 | 133.14 | 151.53 | 155.35 | 196.88 | 167.70 | 179.52 |
| Germany (60) | 171.46 | 4.7 | 169.20 | 117.78 | 134.04 | 134.04 | 10.0 | 1.86 | 172.08 | 168.54 | 118.01 | 134.31 | 134.31 | 174.38 | 147.96 | 147.96 |
| Hong Kong (59) | 427.23 | 10.2 | 419.13 | 293.49 | 333.99 | 424.16 | 10.2 | 3.33 | 429.99 | 421.13 | 294.88 | 335.61 | 426.88 | 451.19 | 323.87 | 340.43 |
| Ireland (16) | 264.72 | 3.6 | 259.70 | 181.85 | 206.95 | 239.17 | 6.5 | 3.47 | 264.44 | 258.99 | 181.34 | 206.39 | 238.20 | 267.91 | 217.70 | 217.70 |
| Italy (59) | 75.75 | 2.8 | 74.32 | 52.04 | 59.22 | 88.99 | 1.9 | 2.17 | 75.15 | 73.60 | 51.53 | 58.65 | 88.02 | 82.71 | 67.22 | 67.38 |
| Japan (481) | 154.39 | -0.3 | 151.46 | 106.06 | 120.70 | 106.06 | 5.0 | 0.72 | 154.70 | 151.52 | 106.09 | 120.75 | 106.09 | 164.82 | 137.75 | 156.29 |
| Malaysia (107) | 556.02 | 14.6 | 545.46 | 381.95 | 434.67 | 539.03 | 13.6 | 1.62 | 555.33 | 543.89 | 380.83 | 433.44 | 537.41 | 581.96 | 425.77 | 488.12 |
| Mexico (16) | 1241.44 | 19.9 | 1217.88 | 852.80 | 970.50 | 10173.16 | 16.6 | 1.37 | 1198.51 | 1173.81 | 821.91 | 935.44 | 9821.98 | 1241.44 | 791.99 | 906.48 |
| Netherland (19) | 289.94 | 6.3 | 284.44 | 199.17 | 226.66 | 222.28 | 11.4 | 3.17 | 290.80 | 284.61 | 199.28 | 226.81 | 222.41 | 291.80 | 235.13 | 235.13 |
| New Zealand (15) | 81.03 | 1.7 | 79.49 | 55.66 | 63.34 | 63.56 | -1.8 | 4.30 | 81.24 | 79.57 | 55.71 | 63.41 | 63.74 | 85.49 | 76.26 | 79.32 |
| Norway (33) | 244.15 | 5.6 | 239.52 | 167.72 | 190.87 | 215.16 | 8.5 | 2.43 | 243.25 | 238.24 | 166.81 | 189.86 | 214.28 | 244.15 | 214.17 | 214.17 |
| Singapore (44) | 441.44 | 8.4 | 433.06 | 303.25 | 345.10 | 287.04 | 8.1 | 1.32 | 441.82 | 432.71 | 302.99 | 344.84 | 288.63 | 465.21 | 355.81 | 361.04 |
| South Africa (45) | 366.27 | -5.0 | 359.32 | 251.61 | 286.33 | 331.83 | 8.0 | 2.54 | 363.99 | 356.49 | 249.62 | 284.10 | 330.16 | 437.76 | 338.91 | 342.47 |
| Spain (37) | 172.38 | 4.3 | 169.11 | 118.42 | 134.76 | 164.04 | 8.1 | 3.37 | 171.08 | 167.55 | 117.32 | 133.53 | 162.90 | 175.88 | 134.27 | 134.27 |
| Sweden (48) | 335.58 | 7.5 | 329.21 | 230.53 | 262.34 | 333.49 | 8.9 | 2.39 | 337.07 | 330.13 | 231.16 | 263.09 | 334.67 | 352.28 | 241.23 | 243.29 |
| Switzerland (39) | 239.65 | 1.6 | 235.11 | 164.63 | 187.35 | 181.72 | 7.9 | 1.56 | 240.02 | 235.08 | 164.60 | 187.34 | 181.22 | 252.34 | 181.75 | 181.75 |
| Thailand (46) | 183.44 | 9.0 | 179.95 | 126.01 | 143.40 | 180.23 | 9.6 | 1.81 | 183.33 | 179.55 | 125.72 | 143.09 | 180.23 | 193.95 | 134.53 | 139.00 |
| United Kingdom (204) | 230.93 | 0.2 | 226.55 | 158.64 | 180.53 | 226.55 | 2.9 | 4.04 | 229.96 | 225.22 | 157.70 | 179.48 | 225.22 | 235.50 | 206.40 | 206.40 |
| USA (639) | 259.44 | 3.3 | 254.52 | 178.22 | 202.82 | 259.44 | 3.3 | 2.23 | 256.97 | 251.68 | 176.23 | 200.57 | 256.97 | 269.11 | 208.41 | 207.34 |
| Americas (773) | 237.16 | 3.6 | 232.66 | 162.91 | 185.40 | 199.29 | 3.5 | 2.23 | 234.92 | 230.08 | 161.10 | 183.36 | 197.41 | 245.54 | 189.06 | 189.73 |
| Europe (726) | 206.97 | 3.0 | 203.04 | 142.18 | 161.80 | 181.56 | 6.9 | 3.02 | 206.73 | 202.47 | 141.77 | 161.35 | 181.03 | 209.03 | 178.19 | 178.19 |
| Nordic (135) | 288.28 | 4.5 | 282.81 | 198.04 | 225.37 | 251.26 | 7.5 | 2.38 | 289.30 | 283.34 | 198.40 | 225.80 | 251.87 | 297.48 | 231.86 | 231.86 |
| Pacific Basin (833) | 167.62 | 1.4 | 164.44 | 115.15 | 131.04 | 117.43 | 5.4 | 1.15 | 167.89 | 164.43 | 115.14 | 131.04 | 117.45 | 171.87 | 148.86 | 164.15 |
| Euro-Pacific (1559) | 183.91 | 2.2 | 180.42 | 126.34 | 143.77 | 141.78 | 6.1 | 2.03 | 183.97 | 180.17 | 126.16 | 143.59 | 141.60 | 185.05 | 166.51 | 169.90 |
| North America (727) | 253.17 | 3.4 | 248.37 | 173.91 | 197.92 | 252.45 | 3.4 | 2.23 | 250.88 | 245.71 | 172.04 | 195.81 | 250.16 | 262.26 | 202.03 | 202.88 |
| Europe Ex. UK (522) | 188.86 | 4.7 | 185.27 | 129.73 | 147.64 | 155.53 | 9.1 | 2.47 | 188.95 | 185.05 | 129.57 | 147.47 | 155.33 | 190.78 | 159.23 | 159.23 |
| Pacific Ex. Japan (352) | 290.24 | 9.7 | 284.73 | 199.38 | 226.90 | 250.98 | 7.7 | 2.98 | 290.25 | 284.27 | 199.06 | 226.54 | 250.93 | 293.58 | 237.71 | 242.42 |
| World Ex. US (1749) | 185.10 | 2.3 | 181.58 | 127.15 | 144.70 | 145.97 | 6.3 | 2.05 | 185.07 | 181.25 | 126.92 | 144.45 | 145.74 | 186.17 | 167.36 | 170.17 |
| World Ex. UK (2173) | 205.48 | 3.0 | 201.58 | 141.16 | 160.64 | 173.85 | 5.2 | 1.93 | 204.65 | 200.43 | 140.34 | 159.73 | 173.01 | 209.05 | 178.82 | 178.82 |
| World Ex. Japan (1896) | 237.52 | 3.7 | 233.01 | 163.16 | 185.68 | 224.88 | 5.0 | 2.55 | 236.11 | 231.24 | 161.92 | 184.28 | 223.42 | 242.36 | 196.38 | 196.38 |
| The World Index (2377) | 207.76 | 2.7 | 203.82 | 142.72 | 162.42 | 178.63 | 5.0 | 2.12 | 206.92 | 202.65 | 141.90 | 161.50 | 177.75 | 211.20 | 181.24 | 181.24 |

 Base values: Dec 31 1986 = 100. Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas. Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 12/4/96: Additions: Boehler-Uddeholm Medium-Small Cap (Austria) and Scania (A & B) (Large Cap) (Sweden). DELETIONS: Kerr Addison Mines (Canada) and Meridian Bancorp (USA). Name change: Farnell Electronics to Premier Farnell (UK). CONSTITUENT CHANGES WITH EFFECT 15/4/96: Deletions: Generale Banque (V V P R) (Belgium) and Navigation Mixte (France). Market closed 12/4/96. Thailand.



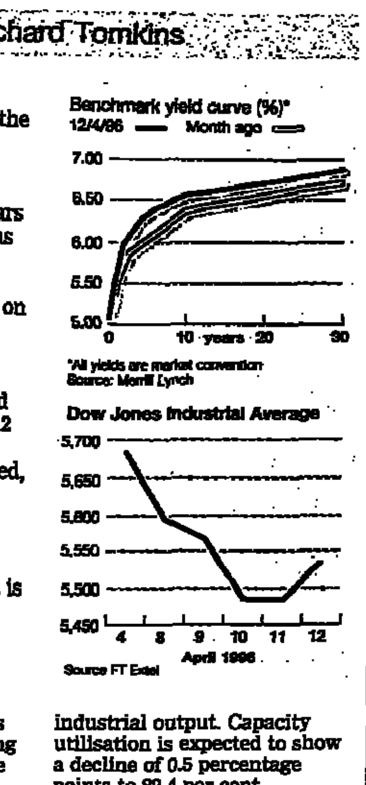




هكذا من الأصل

# MARKETS: This Week

## NEW YORK By Richard Tomkins




US stock and bond prices managed to lighten some of the week's gloom on Friday as traders reacted to a press report suggesting that the Federal Reserve regarded fears of an overheating economy as exaggerated.

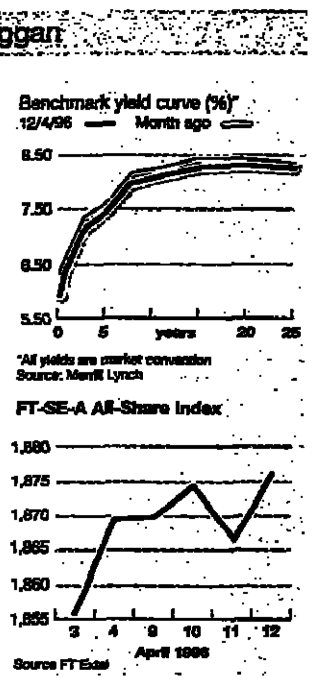
Later that day, a slightly confused message from data on consumer prices and retail sales failed to dampen the positive mood, and the benchmark 30-year long bond ended 1⅜ higher to yield 6.812 per cent. The Dow Jones Industrial Average also gained, by 45.52 to 5,532.59, but still ended the week almost 150 points lower.

Friday's upturn notwithstanding, the market is likely to remain jittery this week amid a general lack of confidence about which way the economy is heading and, more specifically, a lack of consensus among economists about the direction and timing of the Fed's next interest rate move. Yet the market's volatility may be tempered by this week's relatively sparse programme of economic data.

The most closely-watched figures will be for March industrial production and capacity utilisation, due tomorrow. The industrial production figures will be distorted by last month's labour strife at General Motors, leading to a forecast 0.4 per cent decline in total industrial output. Capacity utilisation is expected to show a decline of 0.5 percentage points to 82.4 per cent.

On Wednesday, figures for housing starts in March are expected to reach 1.45m, down on February's 1.49m but still running at a high level. Thursday's Philadelphia Business Outlook Survey is expected to show a modest increase in manufacturing activity, and Friday should bring news that the March budget deficit was $46bn, down from $50.5bn a year earlier.

## LONDON By Philip Coggan




Equities in London withstood the falls on Wall Street quite well last week and gilts survived the expected defeat of the government in the Staffordshire South-East by-election, which reduced its majority to one.

The main test for both markets this week will come in the form of the normal mid-month torrent of economic data, notably producer prices today, unemployment and average earnings on Wednesday, and retail prices and the public sector borrowing requirement on Thursday.

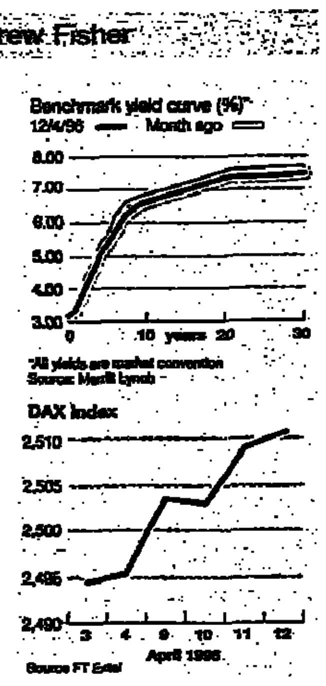
Any sign of inflationary pressures will constrain the government's ability to reduce interest rates again and a further deterioration in its fiscal position will restrict the scope for tax cuts. With markets already nervous about the prospect of an early election, poor figures on either front would be viewed gloomily by the markets on political, as well as economic, grounds.

The minutes of the March 7 monetary meeting, when base rates were cut to 6 per cent, will be released on Wednesday; the markets will be watching to see what attitude Mr Eddie George, the governor of the Bank of England, took towards the move.

While short sterling futures indicate that UK interest rates have fallen as far as they can, there are still hopes for declines in the rest of Europe and attention will be focused on the Bundesbank council meeting on Thursday.

On the corporate front, the spring results season is starting to wind down but figures from Tesco, Smiths Industries and SmithKline Beecham will be published this week. Most corporations which have reported to date have met expectations but analysts are edging down their 1996 forecasts.

## FRANKFURT By Andrew Fisher




Shareholders in that German rarity, a high-flying technology stock, will be hoping for some reassurance this week as SAP rushes out its first-quarter figures a month early to calm the market after recent ructions. Having soared over the past two years, in line with the business software group's profits performance, the shares have looked uncomfortable in the last week or so.

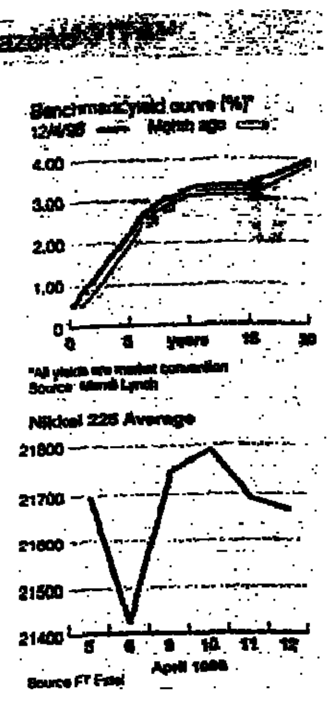
On Wednesday, SAP will also try to shed more light on future developments of its successful R/3 business software range. It has already dismissed reports that its next generation of software will be incompatible with R/3 and that it was lagging behind developments on the Internet.

The equity market remained buoyant last week, with the DAX index at a new record above 2,500 points. The rising dollar, which went above the psychologically important DM1.50 level, helped the market by easing exporters' foreign exchange costs. So did continued indications from senior Bundesbank officials that short-term interest rates might be set for a final nudge downwards.

That still remains to be seen and economists are now starting to wonder whether the central bank will eventually cut the discount and Lombard rates again. It may want to, but high money supply growth is an obvious constraint. On Thursday, when its first post-Easter council meeting takes place, it will hold a press conference on its profits – expected again to be around DM10bn – and annual report.

Bundesbank watchers will be eager for hints on interest rate policy and the bank's view on the economy and state finances. Government efforts to bring state spending under control, discussion of which began in Bonn last night, will also be keenly followed by financial markets.

## TOKYO By Emiko Terazono




While inflation in Japan still remains virtually negligible, nervousness over the rise in US interest rates is starting to affect sentiment in the Tokyo markets.

Although Tokyo equity and bond markets are expected to be supported by domestic institutions including regional banks and pension funds, a rally is likely to be capped by volatility on Wall Street.

The recent decline in the yen and rise in commodity prices have triggered caution over the future course of interest rates. "Some investors are becoming wary over inflationary pressure stemming from higher import prices," said a bond analyst at Sakura Bank.

Money market operations by the Bank of Japan last week managed to ease the overnight call rate below the official discount rate of 0.5 per cent. The overnight call rate, which had been maintained below the ODR, has crept over 0.5 per cent since the start of the month and speculation prevails that the BoJ will allow it to rise above the ODR over the next few months.

Such concerns have trimmed buying in the long-term bond market. Although investors have yet to start liquidating their holdings, many have avoided purchases of long-term bonds in favour of short-term and medium-term debt, and the yield on the 10-year benchmark rose 6.5 basis points last week, closing at the week's high of 3.255 per cent.

On the stock market, the rise in commodity prices has boosted oil, mining, trading house and shipping shares, which have risen by more than 10 per cent since mid-March, when the index hit a low for the year. Buying has been led by dealers and individual investors looking for profits in the short term. and shares could see some profit-taking when commodity prices ease.

## COMMODITIES By Richard Mooney

# Gold price 'could do better'

Leading South African gold producers will this week reveal how they fared in the first quarter of 1996, a period that, in terms of the gold price, was better than for some time but ultimately disappointing.

Having been trapped in the $370 to $390 a troy ounce range for much of 1995, the gold price finally burst through the $400 barrier in January and by early February was enjoying the view from the dizzy heights of $416 an ounce. The elation proved short-lived, however. The price was was quickly back into the $400 area and by the end of the quarter was hovering in the mid-$390s, where it remains.

"Precious metals are relatively cheap compared with other commodities, so they should go higher," a London dealer told the Reuters news agency last week. But he added that for the present the bullion market lacked the conviction to attempt a break-out from its $394–$396 an ounce range.

South African producers reporting this week include: Gengold, today, simultaneously in Johannesburg and London; Gold Fields of South Africa and Anglovaal, tomorrow, in Johannesburg; and Anglo American Corporation, Thursday, in Johannesburg.

● Other events this week include the International Rubber Study Group's 37th annual assembly in Phuket, Thailand.

The three-day event is sandwiched between a two-day international rubber marketing conference, which finished yesterday, and a two-day international rubber forum on Thursday and Friday.

Also today, in Abidjan, the Ivory Coast hosts a meeting of the Caistab, its cocoa marketing agency, the cocoa trade, and the World Bank to discuss liberalisation of the African cocoa sector.

On Thursday the International Lead and Zinc Study Group holds its spring meeting in London, at which it will issue its statistical outlook for 1996 and update its 1995 assessments.

Friday will see the official opening of Alusaf of South Africa's 466,000 tonnes a year Hillside primary aluminium smelter, though full commissioning is not expected until June.

## OTHER MARKETS Compiled by Michael Morgan

### PARIS

The cut in the intervention rate last week was in many respects too small to generate much investor enthusiasm, *writes John Pitt.*

But the feeling is that there is still room to cut rates, perhaps more significantly than the 10 basis points announced by the central bank last week.

The CAC-40 index has risen by nearly 3 per cent since the end of March, aided by a strong franc. Economic signals have been healthy, while corporate forecasts for 1996 been encouraging.

This week L'Oréal and Clairns are due to announce 1995 figures, with Peugeot also coming in with figures on Thursday. Analysts expect the vehicle manufacturer to show a profit of some FFr1.8bn, against 1994's FFr3.1bn.

### MILAN

Next weekend's general election, and suggestions that the outcome may prove more more conclusive than many originally thought, is prompting a reassessment of the Italian market. The Comit index had been out of sorts since the heady days of 1994. This month, however, has seen some signs of a rekindling of foreign demand with the Comit index picking up 5.3 per cent to around 611 on Friday.

The market still has its supporters. Last week, Morgan Stanley reiterated its positive view and said any surprises over the outcome of the election were likely to prove positive for equities. CS First Boston continued to overweight Italy, setting a bullish target for the Comit index of 700 by the end of June and attributing last week's rally to demand from domestic and foreign investors anxious not to be left out if next weekend's election proved unexpectedly positive.

UBS believed that equities and bonds were likely to rally in the post election period and it forecast a rise in the Comit index to around the 650-point level by mid year. J.P. Morgan raised its weighting in Italian equities to overweight, saying equities had not reflected the recent marked improvement in the economy.

Robert Fleming Securities noted that positive liquidity inflows, the low weighting of foreign investors, downside potential for short rates and attractive valuations appeared to favour a rally.

HSBC James Capel, however, remained downbeat. It continued to recommend an underweight position, doubting the election would prove a turning point.

### HONG KONG

Wall Street, as so often, will provide the lead for this week's trade, with investors having their first opportunity to react to the US consumer price index, which came after trading closed in Hong Kong on Friday, *writes Louise Lucas.*

Domestically, any signs of improved Sino-British relations emerging from the meeting between Lu Ping, China's top official on Hong Kong affairs, and Anson Chan, Hong Kong's chief secretary, stand to lift sentiment.

Investors expect the mainland carrier, China National Aviation Corp, to announce that it has cleared the first hurdle towards setting up operations in Hong Kong. This should put continued pressure on the Cathay Pacific, the colony's de facto flag carrier, and its parent Swire Pacific.

### VENEZUELA

Venezuelan equities surged last week ahead of the expected announcement today of wide-ranging economic reforms by the government of President Rafael Caldera, *writes Richard Lapper.*

Venezuela's Brady bonds, also did well, with prices rising by an average of 1 per cent between April 4 and April 12, according to West Merchant Bank's index of secondary debt market. Although the reforms, expected to include liberalisation of petrol prices and the removal of exchange controls, are being welcomed by investors, much of their impact may already have been discounted. Mr Peter West, adviser to West Merchant Bank, reckoned the going was going to get rougher, particularly when looking at higher interest rates on the banking system.

## CROSS BORDER M&A DEALS

| BIDDER/INVESTOR | TARGET | SECTOR | VALUE | COMMENT |
|---|---|---|---|---|
| Petro-Canada (Canada) | Unit of Amerada Hess (US) | Oil & gas | $539m | Canadian disposal |
| Toronto-Dominion Bank (Canada) | Waterhouse Investment Services (US) | Financial services | $525m | Cash & paper deal |
| BJ Services (US) | Nowsco (Canada) | Oilfield services | $412m | Bid rebuffed |
| Ashanti Goldfields (Ghana) | Golden Shamrock Mines (Australia) | Mining | $290m | Continues rapid expansion |
| Svedala Industri (Sweden) | Tampella Corp (Finland) | Engineering | $276m | Kvaerner eyes exit |
| Hammerson (UK) | Märkisches Zentrum (Germany) | Property | $124m | Berlin buy |
| Infogrames Entertainment (France) | Ocean International (UK) | Computer games | $100m | Merger structure |

## CURRENCIES By Philip Gawith

# Bundesbank and G7 meetings could fuel dollar rally

Things are looking up for currency traders, with the protracted bout of pre-Easter lethargy now looking like little more than a bad memory.

Today, markets will have their first opportunity to pass judgment on the weekend meeting of EU finance ministers in Verona. Traders will be forgiven if their first instinct is to send for the champagne. After all, exchange rate mechanisms have been good business to them, and now a further model is under discussion.

Hardly will they have got their teeth into this subject before the spring meetings of the G7/IMF/World Bank get under way in Washington.

It is a betting certainty that the G7 finance ministers will make some sort of comment about exchange rates. The bland language should not be allowed to mislead. After all, it was last year's meeting which served as the catalyst for the turn in the dollar.

Ever since, there has been a marked reluctance on the part of the market to sell the dollar aggressively, with traders generally of the belief that the central banks will not sanction a precipitate fall in the world's leading trading and reserve currency.

That logic is no less compelling today, when it is widely accepted that none of the leading economies has an interest in a weaker dollar.

The other big event of the week is the Bundesbank council meeting on Thursday. There is considerable expectation that a further fall in interest rates may be announced. The combination of dollar-supportive comments from the G7, and lower German rates, could well fuel the sort of rally which dollar bulls have been dreaming about for months.

It may also trigger further depreciation of the D-Mark, which has weakened steadily in recent weeks against most European currencies.

The lira will be a particular focus of attention in the run-up to next Sunday's elections. Given the uncertainty surrounding the outcome, the currency has performed remarkably well. If anything, it is probably vulnerable to a downward correction.

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, April 12, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

| | | £ STG | US $ | D-MARK | YEN (X 100) |
|---|---|---|---|---|---|
| Afghanistan | (Afghani) | 7178.55 | 4730.00 | 3158.87 | 4370.83 |
| Albania | (Lek) | 150.072 | 99.3000 | 66.0371 | 91.3734 |
| Algeria | (Dinar) | 81.4175 | 53.8725 | 35.8266 | 48.5721 |
| Andorra | (French Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| | (Sp Peseta) | 189.842 | 125.615 | 83.5373 | 115.589 |
| Angola | (Readj Kwanza)(1) | 48035.2 | 31784.0 | 21137.2 | 29246.8 |
| Antigua | (E Carib $) | 4.0805 | 2.7000 | 1.7956 | 2.4845 |
| [illegible] | | | | | |
| China | (Yuan) | 12.5025 | 8.3822 | 5.5411 | 7.6871 |
| Colombia | (Col Peso) | 1584.71 | 1048.58 | 697.330 | 964.872 |
| Comoros | (Fr) | 578.271 | 382.631 | 254.460 | 352.088 |
| Congo | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Costa Rica | (Colon) | 304.857 | 201.725 | 134.152 | 185.622 |
| Côte d'Ivoire | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Croatia | (Kuna) | 8.3404 | 5.5187 | 3.6701 | 5.0782 |
| Cuba | (Cuban Peso) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Cyprus | (Cyprus £) | 0.7104 | 0.4701 | 0.3126 | 0.4325 |
| Czech Rep. | (Koruna) | 41.5386 | 27.4840 | 18.2776 | 25.2901 |
| Denmark | (Danish Krone) | 8.7708 | 5.8035 | 3.8595 | 5.3402 |
| Djibouti Rep | (Djib Fr) | 241.808 | 160.000 | 106.404 | 147.225 |
| Dominica | (E Carib $) | 4.0805 | 2.7000 | 1.7956 | 2.4845 |
| Dominican Rep | (D Peso) | 20.7124 | 13.7050 | 9.1142 | 12.6110 |
| Ecuador | (Sucre) | 4630.82o | 3064.00 | 2037.64 | 2819.42 |
| | (Sucre) | 4352.54m | 2880.00 | 1915.26 | 2650.10 |
| Egypt | (Egyptian £) | 5.1434 | 3.4033 | 2.2633 | 3.1316 |
| El Salvador | (Colon) | 13.2314 | 8.7550 | 5.8223 | 8.0561 |
| Equat'l Guinea | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Estonia | (Kroon) | 18.1810 | 12.0300 | 8.0003 | 11.0687 |
| Ethiopia | (Ethiopian Birr) | 8.7656 | 5.8000 | 3.8572 | 5.3370 |
| Falkland Is | (Falk £) | 1 | 0.6617 | 0.4400 | 0.6089 |
| Faroe Is | (Danish Krone) | 8.7708 | 5.8035 | 3.8595 | 5.3402 |
| Fiji Is | (Fiji $) | 2.1296 | 1.4086 | 0.9367 | 1.2960 |
| Finland | (Markka) | 7.1104 | 4.7048 | 3.1288 | 4.3292 |
| France | (Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| Fr. Cty/Africa | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Fr. Guiana | (Local Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| Fr. Pacific Is | (CFP Fr) | 140.187 | 92.7590 | 61.6872 | 85.3545 |
| Gabon | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Gambia | (Dalasi) | 14.7352 | 9.7500 | 6.4840 | 8.9717 |
| Germany | (D-Mark) | 2.2725 | 1.5037 | 1 | 1.3837 |
| Ghana | (Cedi) | 2384.83 | 1578.00 | 1049.41 | 1452.04 |
| Gibraltar | (Gib £) | 1 | 0.6617 | 0.4400 | 0.6089 |
| Greece | (Drachma) | 366.173 | 242.290 | 161.129 | 222.949 |
| Greenland | (Danish Krone) | 8.7708 | 5.8035 | 3.8595 | 5.3402 |
| Grenada | (E Carib $) | 4.0805 | 2.7000 | 1.7956 | 2.4845 |
| Guadeloupe | (Local Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| Guam | (US $) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Guatemala | (Quetzal) | 9.3329 | 6.1754 | 4.1068 | 5.6825 |
| Guinea | (Fr) | 1506.77 | 997.000 | 663.031 | 917.414 |
| [illegible] | | | | | |
| Luxembourg | (Lux Fr) | 46.6539 | 30.8700 | 20.5294 | 28.4058 |
| Macao | (Pataca) | 12.0726 | 7.9882 | 5.3124 | 7.3505 |
| Macedonia | (Denar) | 57.5805 | 38.1000 | 25.3376 | 35.0587 |
| Madagascar | (MG Fr) | 5591.81 | 3700.00 | 2460.60 | 3404.65 |
| Madeira | (Port Escudo) | 233.619 | 154.515 | 102.757 | 142.181 |
| Malawi | (Kwacha) | 23.1834 | 15.3400 | 10.2015 | 14.1155 |
| Malaysia | (Ringgit) | 3.8043 | 2.5172 | 1.6740 | 2.3163 |
| Maldive Is | (Rufiya) | 17.7880 | 11.7700 | 7.8274 | 10.8305 |
| Mali Rep | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Malta | (Maltese Lira) | 0.5478 | 0.3626 | 0.2411 | 0.3336 |
| Martinique | (Local Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| Mauritania | (Ouguiya) | 205.815 | 136.250 | 90.6098 | 125.374 |
| Mauritius | (Maur Rupee) | 29.0472 | 19.2200 | 12.7818 | 17.6859 |
| Mexico | (Mexican Peso) | 11.3272 | 7.4950 | 4.9844 | 6.8967 |
| Miquelon | (Local Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| Moldova | (Leu) | 6.9593 | 4.6050 | 3.0492 | 4.2190 |
| Monaco | (French Fr) | 7.7144 | 5.1045 | 3.3946 | 4.6970 |
| Mongolia | (Tugrik) | 705.278 | 466.670 | 310.346 | 429.418 |
| Montserrat | (E Carib $) | 4.0805 | 2.7000 | 1.7956 | 2.4845 |
| Morocco | (Dirham) | 13.1288 | 8.6856 | 5.7762 | 7.9923 |
| Mozambique | (Metical) | 16720.3 | 11063.5 | 7357.52 | 10180.4 |
| Namibia | (S A Rand) | 6.2609 | 4.1425 | 2.7549 | 3.8118 |
| Nauru Is | (Australian $) | 1.9122 | 1.2652 | 0.8414 | 1.1642 |
| Nepal | (Nepalese Rupee) | 86.5219 | 57.2500 | 38.0726 | 52.6800 |
| Netherlands | (Guilder) | 2.5355 | 1.6797 | 1.1170 | 1.5456 |
| N'nd Antilles | (A/Guilder) | 2.7052 | 1.7900 | 1.1904 | 1.6471 |
| New Zealand | (NZ $) | 2.2329 | 1.4773 | 0.9825 | 1.3594 |
| Nicaragua | (Gold Cordoba) | 12.3942 | 8.2010 | 5.4539 | 7.5464 |
| Niger Rep | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Nigeria | (Naira) | 33.2466o | 22.0000 | 14.6306 | 20.2439 |
| | (Naira) | 125.740m | 83.2000 | 55.3302 | 76.5585 |
| Norway | (Nor. Krone) | 9.8122 | 6.4926 | 4.3177 | 5.9743 |
| Oman | (Rial Omani) | 0.5819 | 0.3850 | 0.2560 | 0.3543 |
| Pakistan | (Pak. Rupee) | 52.2085 | 34.5454 | 22.9736 | 31.7876 |
| Panama | (Balboa) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Papua New Guinea | (Kina) | 1.9584 | 1.2943 | 0.8609 | 1.1912 |
| Paraguay | (Guarani) | 3037.71 | 2010.00 | 1336.70 | 1849.55 |
| Peru | (New Sol) | 3.5682 | 2.3610 | 1.5701 | 2.1725 |
| Philippines | (Peso) | 39.5734 | 26.1850 | 17.4137 | [illegible] |
| [illegible] | | | | | |
| Sweden | (Krona) | 10.1453 | 6.7130 | 4.4643 | 6.1771 |
| Switzerland | (Fr) | 1.8485 | 1.2231 | 0.8134 | 1.1255 |
| Syria | (£) | 63.3990 | 41.9500 | 27.8978 | 38.6013 |
| Taiwan | ($) | 41.0635 | 27.1710 | 18.0694 | 25.0021 |
| Tanzania | (Shilling) | 807.034 | 534.000 | 355.124 | 491.373 |
| Thailand | (Baht) | 38.2583 | 25.3155 | 16.8355 | 23.2947 |
| Togo Rep | (CFA Fr) | 771.440 | 510.450 | 339.463 | 469.703 |
| Tonga Is | (Pa'anga) | 1.9122 | 1.2652 | 0.8414 | 1.1642 |
| Trinidad/Tobago | ($) | 8.6749 | 5.7400 | 3.8173 | 5.2818 |
| Tunisia | (Dinar) | 1.4743 | 0.9755 | 0.6487 | 0.8976 |
| Turkey | (Lira) | 110838.8 | 73340.0 | 48773.0 | 67485.6 |
| Turks & Caicos | (US $) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Tuvalu | (Australian $) | 1.9122 | 1.2652 | 0.8414 | 1.1642 |
| Uganda | (New Shilling) | 1508.28 | 998.000 | 663.696 | 918.335 |
| Ukraine | (Karbovanets) | 286693.8 | 189700.0 | 126155.5 | 174557.2 |
| U A E | (Dirham) | 5.5510 | 3.6730 | 2.4426 | 3.3798 |
| United Kingdom | (£) | 1 | 0.6617 | 0.4400 | 0.6089 |
| United States | (US $) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Uruguay | (Peso Uruguayo) | 11.3801 | 7.5300 | 5.0077 | 6.9289 |
| Vanuatu | (Vatu) | 168.344 | 111.390 | 74.0773 | 102.498 |
| Vatican | (Lira) | 2377.31 | 1573.03 | 1046.10 | 1447.46 |
| Venezuela | (Bolivar) | 437.710o | 289.625 | 192.608 | 266.506 |
| Venezuela | (Bolivar)(2) | 724.744m | 479.550 | 318.914 | 441.270 |
| Vietnam | (Dong) | 16643.9 | 11013.0 | 7323.93 | 10133.8 |
| Virgin Is-British | (US $) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Virgin Is-US | (US $) | 1.5113 | 1 | 0.6650 | 0.9202 |
| Western Samoa | (Tala) | 3.7081 | 2.4516 | 1.6304 | 2.2559 |
| Yemen (Rep of) | (Rial) | 211.583r | 140.000 | 93.1037 | 128.825 |
| Yugoslavia | (New Dinar) | 7.3804 | 4.8835 | 3.2477 | 4.4937 |
| Zaire Rep | (Zaire) | 37782.5 | 25000.0 | 16625.7 | 23004.4 |
| Zambia | (Kwacha) | 1839.23 | 1215.00 | 808.007 | 1118.01 |
| Zimbabwe | ($) | 14.8810 | 9.8465 | 6.5482 | 9.0605 |

Special Drawing Rights April 11, 1996 Utd Kingdom £0.958938 Utd States $1.44615 Germany DM2.17602 Japan Y157.052 European Currency Unit Rates April 12, 1996 Utd Kingdom £0.836038 Utd States $1.26617 Germany DM1.90116 Japan Y137.443

Friday, April 12, 1996

## MARKETS: This Week

INTERNATIONAL BONDS By Richard Lapper

# US/German decoupling back on the agenda

Since the sell-off in the Treasury market over Easter, German bonds have done much better than their US counterparts, giving rise to much talk in the market about the possible "decoupling" of the two bond markets.

Until March this year, 10-year Treasuries had been trading at a premium – or a yield discount – to German paper for about 18 months. Since then the position has been reversed.

German bonds are now more expensive, with the 10-year yield spread over Treasuries widening from just a few basis points before Good Friday's US employment figures to a high of 39 basis points on Wednesday last week.

A number of analysts have suggested that this cross-over could indicate that the performance of the two markets may now begin to diverge, reflecting differences in underlying economic circumstances in the two countries.

A spate of data indicating economic weakness in Europe and growing strength in the US has led some analysts to suggest that further falls in German interest rates could take place even as the US authorities begin to tighten monetary policy.

However, some analysts argue that the arguments about decoupling are being overplayed.

A close examination of the relative recent historical performances of the two markets indicates that genuine decoupling, some times referred to as "hard decoupling" – in which rates move in opposite directions – has been relatively rare, for example.

Research by Mr Michael Burke and Mr Neil MacKinnon, economists at Citibank, shows that the US and German cycles have been closely linked.

The analysis of 10-year bond yields since 1960 identifies seven Treasuries cycles, six bond cycles and 24 turning points in all these cycles.

Roughly three-quarters of US and German cycle turning points are within four months of each other, while between a third and a half of the turning points have been within one month of each other.

Yields have moved on divergent paths during five separate periods – so-called "decoupling periods" – lasting on average nearly two years. But yields have actually moved in opposite directions for average periods of only 15 months.

In two of these periods, German yields rose and Treasury yields fell, while on three occasions Treasury yields rose and bund yields fell.

In addition, the scope for decoupling appears to be declining. Since 1990, the level of correlation between the two markets has risen.

Research by Lehman Brothers shows correlation between US and German 10-year bonds has increased from 0.77 in November 1992 to 0.93 in late March. Rises and falls in volatility have made little difference and the yield spread between the two markets has been surprisingly stable until the last two weeks.

According to Lehman's figures, over the last year, for example, the German/US 10-year spread has moved in a range of 76 basis points compared with a range of 224 basis points between Italian and German bonds.

Analysts suggest that this higher level of correlation between the two markets is partially a result of greater internationalisation of capital flows and the increasing willingness of institutional investors, especially from the US, to hold cross-border investments.

Lehman suggests that the economic differences between the US and Germany have been overstated. The US economy grew by 2.1 per cent in 1995, compared with 2 per cent for Germany, and Lehman predicts that the two countries' growth rates are likely to be similar in 1996.

Lehman analysts expect the US to outgrow Germany by 1 per cent in 1998, but say "economic divergence . . . seems a long way off."

Citibank's analysts argue that the rising correlation reflects global imbalances in the supply of and demand for capital, which is leading to a bear market in bonds.

In a recent note they point to a number of factors which are increasing demand for capital.

Private sector demand for capital is rising and the reflationary policies of the leading central banks have resulted in stronger than expected growth in the main economies, notably in Japan and the US.

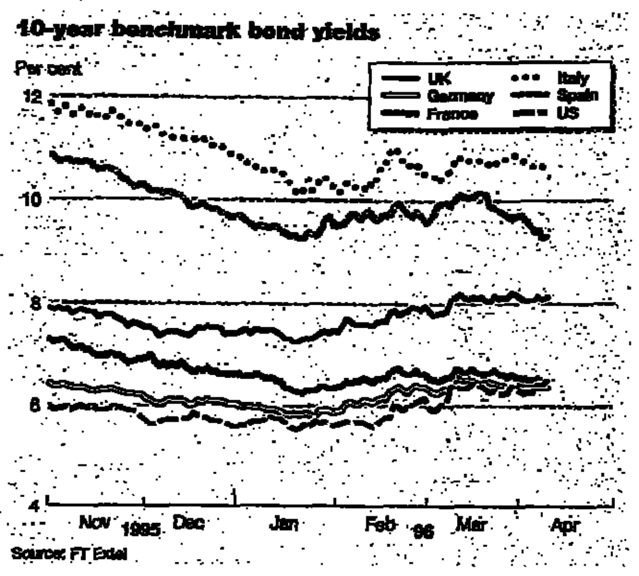
At same time, even though there has been a medium-term fall in the US budget deficit, aggregate budget deficits are rising in the OECD countries.

Lehman and Citibank disagree about the direction of the US market: Citibank analysts are bearish while Lehman continues to be relatively positive about prospects for US bond yields. But both houses agree that decoupling in any real sense is unlikely to occur.

"Decoupling is wrongly being used to refer to the belief that Germany will continue to outperform the US. Even if Germany outperforms the US, the overwhelming evidence is that the two markets will continue to be highly correlated," says Mr Mark Fox, fixed income strategist at Lehman Brothers.

"The so-called decoupling of long-term interest rates is usually a myth perpetrated by European bond salesman," say Citibank analysts.

**10-year benchmark bond yields**



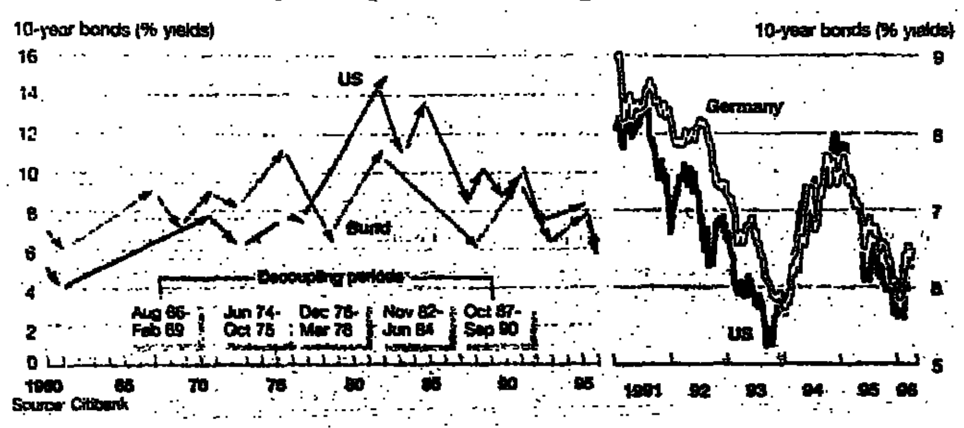
Source: FT Extel

**INTEREST RATES AT A GLANCE**

| | USA | Japan | Germany | France | Italy | UK |
|---|---|---|---|---|---|---|
| Discount | 5.00 | 0.50 | 3.00 | 5.50[1] | 9.00 | 6.00[2] |
| Overnight | 5.19 | 0.47 | 3.31 | 3.90 | 9.81 | 5.81 |
| Three month | 5.07 | 0.44 | 3.38 | 3.90 | 9.80 | 5.93 |
| One year | 5.53 | 0.98 | 3.35 | 4.19 | 9.31 | 6.31 |
| Five year | 6.32 | 1.95 | 5.22 | 5.73 | 10.00 | 7.65 |
| Ten year | 6.53 | 3.26 | 6.46 | 6.58 | 10.55 | 8.08 |

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

**US German bond cycles/ peaks and troughs**



Source: Citibank

**NEW INTERNATIONAL BOND ISSUES**

| Borrower | Amount m. | Maturity | Coupon % | Price | Yield % | Launch spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| US DOLLARS | | | | | | | |
| [illegible] | 200 | Apr 1997 | (a) | 100.00 | - | | BZW |
| [illegible] | 200 | May 2000 | 6.625 | 100.28R | 6.543 | +16(b) | [illegible] |
| [illegible] | 170 | May 2001 | 1.50 | 100.00 | | | [illegible] |
| [illegible] | 50 | Apr 1999 | 10.50 | 99.869R | 10.54 | | BZW |
| D-MARKS | | | | | | | |
| [illegible] | | | | | | | |
| FRENCH FRANCS | | | | | | | |
| [illegible] | | Oct 2005 | (d) | 99.60R | - | - | BNP/CDC |
| [illegible] | | Apr 1999 | (e) | 100.00R | - | - | Société Générale |
| [illegible] | | May 2002 | 6.00 | 99.72R | 6.057 | +10(f) | BNP |
| AUSTRALIAN DOLLARS | | | | | | | |
| [illegible] | | May 2001 | 8.75 | 101.155 | 8.457 | - | Toronto Dominion Bank |
| [illegible] | | May 2000 | 9.00 | 101.50 | 8.542 | - | Kredietbank Intl Group |
| CANADIAN DOLLARS | | | | | | | |
| GEC Canada | 125 | Dec 2001 | 7.375 | 99.735R | 7.447 | +10(7½%-01) | SBCW/Toronto Dom |
| PESETAS | | | | | | | |
| European Investment Bank | | Mar 2001 | 7.50 | 97.60 | 8.169 | - | Banco Central Hispano |
| Kingdom of Sweden | | May 2011 | (r1) | 101.325 | - | - | BNA/BNP España |
| DANISH KRONER | | | | | | | |
| Mortgage Bank of Denmark | | May 2002 | (f) | 101.788 | 6.48 | - | Kredietbank Intl Group |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ... with equity warrants. ∗Unlisted. ... Semi-annual coupon and yield. ... Y733. Reset each February to give zero% premium, max 150% and ... Libor flat. c) Fungible with SFr250m. Plus 60 days accrued. d) ... most liquid 10-yr OATs, paid quarterly. e) 8% x number of days the ... the 6% Feb05 Bund is between zero and 100bp, divided by 365 days. ... Fungible with DM275m. Plus 325 days accrued. h) Amortises DM12m ... stated yield. i) Callable annually from 30/5/97 at par. Includes L100bn ... max 12%. k) Fungible with Pta50bn. Plus 60 days accrued. l) Long ... 1.4294 S$/US. n) Fungible with DM350m. Plus 120 days accrued. o) ... q) Selling group re-offer. r) Callable on 16/5/04 at par. r1) 9.72% ... 1st coupon. Note: Yields are calculated on ISMA basis.





EMERGING MARKETS By Farhan Bokhari

# Karachi returning to normal

The Karachi stock exchange has limped back almost to normal in recent months, following a large-scale paramilitary crackdown on the MQM, or Mohajir Qaumi Movement, the city's powerful political party.

As a result, there are signs of an improved environment: the city's hotels are showing significant gains in occupancies and business volumes, the flights coming to Karachi have begun to carry more passengers, and the number of motorists on the roads late at night has gone up.

For much of last year a steep fall in share prices, when the KSE-100 index fell by over a third, was widely due to violence in Karachi that claimed almost 2,000 lives, and caused a big dent in business confidence. Pakistani officials held the MQM responsible for most of the killings, which prompted the government to take its recent action. Despite the relative calm, a bold recovery in the market is still awaited.

The KSE-100 index closed at 1,555 last Thursday ahead of the weekend break. Compared with some of the most spectacular gains in share prices during the market's peak a couple of years ago, and again earlier this year when there was a mini-rally to 1,853, that is only a small increase from the start of the year when the index was trading at 1,471.

The market's decline since the start of March is even more surprising, especially because an expected recovery in the textile sector this year should have helped to lift sentiment. Textile shares, which represent well over a quarter of the 748 companies listed on the KSE, promise to do well because a recent bumper cotton crop may provide raw material to textile factories at lower prices than the last three years, when raw cotton prices soared after an extensive pest attack.

However, investors have many reasons to be cautious. An IMF standby loan programme, agreed in December, would provide up to $600m to Pakistan this year. But there are a number of tough conditions.

In an attempt to improve official revenues, Pakistan is required to impose a sales tax of up to 15 per cent on more than 200 items by the time the budget is unveiled in June. The effort began last week with the imposition of the tax on up to 45 items, such as raw steel and metallic bars, high power electric motors and power transformers.

The proposal has triggered concern among the business community and industrialists. They argue that the tax would increase the cost of setting up and running industries, and would hit profits.

Some economists say the tax would fuel inflation, and squeeze the spending ability of consumers.

Pakistan is also under pressure from international financial institutions and the country's Western donors to lower its public sector deficit, which has run chronically higher than official targets. That message is expected to be conveyed again when Pakistani officials meet donor representatives at the annual aid to Pakistan consortium meeting in Paris later this month (April 22–23).

However, a stronger push to improve tax collections is almost certain to further depress the market's outlook because of concern that more tax revenues from businesses would mean lower profits.

Many investors are also worried about the future trend of the rupee, which has devalued by more than 40 per cent over the past three years. Even now, many speculators say that there could be a 10 per cent further devaluation, during the next 12 months.

Investors are also eager to watch the future of the privatisation programme, which has been caught in a number of difficulties, largely due to delays over the sale of various companies. The downward sentiment on the stock market during the first quarter this year was partly fuelled by concerns over the privatisation of UBL (United Bank), the country's second largest public sector bank. The bank was finally sold after its privatisation was delayed on three occasions due to lack of interest from investors.

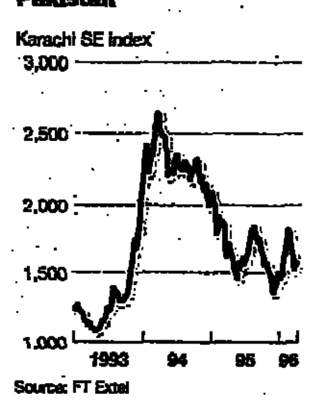
The big test, however, is the planned privatisation of PTC (Pakistan Telecommunications Corporation), the country's main telephone company. The government plans to invite bids next month to sell up to 26 per cent of PTC's shares to a single new buyer and transfer the company's management. The measure is crucial to pave the way for selling more PTC shares on the stock market.

On the positive side, many analysts are encouraged by expectations of the country's economic growth rate rising to 6 per cent of GDP when the fiscal year ends in June, up from just over 4 per cent last year. Mr Nader Morshed, chief executive of Taurus Securities, a Karachi brokerage house says: "We expect this year to be good in terms of overall economic growth, which will translate into improved corporate profitability."

He expects sentiment to improve during the second half of the year, when many analysts are also expecting larger flows of foreign funds to emerging markets like Pakistan. But another banker who is cautious adds: "Sentiment will depend a lot on a range of economic factors such as tax issues. The budget could be a turning point but no one knows which way things will go."

Others are also concerned about the future of peace in Karachi. Despite the recent calm, there is yet to be an agreement between the government and the MQM which would bring permanent peace.

**Pakistan**



Source: FT Extel

**ING BARING SECURITIES EMERGING MARKETS INDICES**

| Index | 12/4/96 | Week on week movement Actual | Percent | Month on month movement Actual | Percent | Year to date movement Actual | Percent |
|---|---|---|---|---|---|---|---|
| World (395) | 158.86 | +1.32 | +0.84 | +7.97 | +5.28 | +11.30 | +7.66 |
| **Latin America** | | | | | | | |
| Argentina (22) | 93.43 | +1.32 | +1.44 | +3.57 | +3.98 | +0.65 | +0.70 |
| Brazil (23) | 203.65 | -5.61 | -2.68 | +3.33 | +1.66 | +17.56 | +9.44 |
| Chile (15) | 174.62 | +3.96 | +2.32 | -4.27 | -2.39 | -21.05 | -10.76 |
| Colombia (14) | 159.14 | +0.63 | +0.40 | -0.16 | -0.10 | -5.10 | -3.11 |
| Mexico (23) | 81.70 | -1.00 | -1.21 | +8.41 | +11.47 | +8.10 | +11.01 |
| Peru(14) | 1,033.67 | -10.96 | -1.05 | -49.05 | -4.53 | -35.28 | -3.30 |
| Latin America (112) | 128.58 | -1.20 | -0.92 | +4.35 | +3.50 | +5.44 | +4.42 |
| **Europe** | | | | | | | |
| Greece (18) | 107.91 | -0.69 | -0.63 | -2.61 | -2.36 | +9.94 | +10.15 |
| Portugal (20) | 126.69 | -1.79 | -1.39 | -0.58 | -0.46 | +10.23 | +8.79 |
| Turkey (26) | 122.94 | -12.34 | -9.12 | +17.45 | +16.54 | +40.14 | +48.47 |
| South Africa (32) | 149.18 | -1.17 | -0.78 | -6.05 | -3.89 | -4.19 | -2.73 |
| Europe (96) | 124.85 | -2.00 | -1.58 | -2.13 | -1.68 | +3.32 | +2.73 |
| **Asia** | | | | | | | |
| China (24) | 44.74 | -1.46 | -3.17 | -0.87 | -1.91 | +4.41 | +10.95 |
| Indonesia (32) | 152.03 | +0.88 | +0.58 | +10.41 | +7.35 | +13.39 | +9.66 |
| Korea (23) | 135.29 | +1.27 | +0.94 | +4.82 | +3.69 | -1.61 | -1.18 |
| Malaysia (24) | 258.84 | +1.30 | +0.50 | +12.04 | +4.88 | +31.47 | +13.84 |
| Pakistan (14) | 78.65 | -1.33 | -1.66 | -4.84 | -5.80 | +5.06 | +6.87 |
| Philippines (14) | 302.34 | +2.67 | +0.89 | +17.40 | +6.11 | +43.17 | +16.66 |
| Thailand (25) | 263.81 | -1.06 | -0.40 | +13.87 | +5.55 | +11.93 | +4.74 |
| Taiwan (31) | 165.88 | +24.03 | +16.94 | +44.01 | +36.11 | +35.06 | +26.80 |
| Asia (187) | 229.39 | +7.68 | +3.46 | +21.39 | +10.28 | +26.35 | +12.90 |

All indices in $ terms, January 7th 1992=100 Source: ING Baring Securities.

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Apr 12 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Apr 12 / Frs.)

[illegible]

CZECH REP (Apr 12 / Koruna)

[illegible]

DENMARK (Apr 12 / Kr)

[illegible]

FINLAND (Apr 12 / Mka)

[illegible]

FRANCE (Apr 12 / Frs.)

[illegible]

GREECE (Apr 11 / Drachma)

[illegible]

ITALY (Apr 12 / Lire)

[illegible]

GERMANY (Apr 12 / Dm.)

[illegible]

NETHERLANDS (Apr 12 / Fls.)

[illegible]

NORWAY (Apr 12 / Kroner)

[illegible]

POLAND (Apr 12 / Zloty)

[illegible]

PORTUGAL (Apr 12 / Escudo)

[illegible]

SPAIN (Apr 12 / Pta)

[illegible]

SWEDEN (Apr 12 / Kronor)

[illegible]

SWITZERLAND (Apr 12 / Frs.)

[illegible]

TURKEY (Apr 12 / Tk Lira)

[illegible]



## PACIFIC

JAPAN (Apr 12 / Yen)

[illegible]

HONG KONG (Apr 12 / H.K.$)

[illegible]

INDONESIA (Apr 12 / Rupiah)

[illegible]

MALAYSIA (Apr 12 / MYR)

[illegible]

NEW ZEALAND (Apr 12 / NZ $)

[illegible]

SINGAPORE (Apr 12 / S$)

[illegible]

AUSTRALIA (Apr 12 / Aust$)

[illegible]

SOUTH KOREA (Apr 12 / Won)

[illegible]

TAIWAN (Apr 12 / TW $)

[illegible]

THAILAND (Apr 11 / Baht)

[illegible]

## AFRICA

SOUTH AFRICA (Apr 12 / Rand)

[illegible]

## NORTH AMERICA

CANADA

MONTREAL (Apr 12 / Can $) 4 pm close

[illegible]

TORONTO (Apr 12 / Can $) 4 pm close

[illegible]

## INDICES

| | Apr 12 | Apr 11 | Apr 10 | 1996 High | | 1996 Low | |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |
| **Brazil** | | | | | | | |
| Bovespa(29/12/83) | 50156.0 | 48852.0 | 48896.0 | 54100.00 | 2/2 | 43081.80 | 2/1 |
| **Canada** | | | | | | | |
| Metals Mnls◆(1975) | 5470.77 | 5423.95 | 5401.68 | 5470.77 | 12/4 | 4867.47 | 18/1 |
| Composite◆(1975) | 5021.91 | 5027.69 | 5023.57 | 5069.89 | 14/2 | 4739.70 | 15/1 |
| Portfolio§§(4/1/83) | 2434.38 | 2443.89 | 2438.69 | 2486.57 | 8/2 | 2327.39 | 12/1 |
| **Chile** | | | | | | | |
| IGPA Gen♥(31/12/80) | 5295.82 | 5262.03 | 5248.54 | 5804.33 | 8/1 | 5215.28 | 8/4 |
| **Denmark** | | | | | | | |
| CopenhagenSE(3/1/83) | 391.40 | 391.48 | 392.06 | 392.86 | 10/4 | 366.40 | 2/1 |
| **Finland** | | | | | | | |
| HEX General(28/12/90) | 1821.48 | 1830.80 | 1832.91 | 1887.16 | 19/3 | 1651.67 | 10/1 |
| **France** | | | | | | | |
| SBF 250(31/12/90) | 1408.50 | 1408.84 | 1420.10 | 1420.10 | 10/4 | 1250.18 | 2/1 |
| CAC 40(31/12/87) | 2074.74 | 2072.52 | 2093.94 | 2093.94 | 10/4 | 1897.86 | 11/1 |
| **Germany** | | | | | | | |
| FAZ Aktien(31/12/58) | 881.70 | 893.55 | 897.54 | 897.54 | 10/4 | 818.58 | 2/1 |
| Commerzbank(1/12/53) | 2568.2 | 2572.1 | 2584.7 | 2584.70 | 10/4 | 2370.20 | 2/1 |
| DAX‡(30/12/87) | 2511.78 | 2509.71 | 2530.02 | 2530.02 | 10/4 | 2284.88 | 2/1 |
| **Greece** | | | | | | | |
| Athens SE(31/12/80) | (u) | 854.74 | 851.72 | 1017.96 | 4/3 | 801.14 | 3/1 |
| **Hong Kong** | | | | | | | |
| Hang Seng(31/7/64) | 10649.80 | 10892.57 | 11077.55 | 11594.99 | 16/2 | 10204.87 | 2/1 |
| **India** | | | | | | | |
| BSE Sens.(1979) | 3487.51 | 3464.33 | 3469.94 | 3681.00 | 14/2 | 2828.06 | 25/1 |
| **Indonesia** | | | | | | | |
| Jakarta Comp.(10/8/82) | 607.05 | 605.33 | 603.93 | 607.05 | 12/4 | 512.48 | 2/1 |
| **Ireland** | | | | | | | |
| ISEQ Overall(4/1/88) | 2425.58 | 2413.32 | 2421.97 | 2425.88 | 3/4 | 2234.61 | 2/1 |
| **Italy** | | | | | | | |
| Banca Comm Ital(1972) | 611.11 | 612.93 | 607.48 | 638.26 | 9/2 | 572.21 | 27/3 |
| MIB General(2/1/96) | 1038.0 | 1039.0 | 1030.0 | 1082.00 | 9/2 | 970.00 | 27/3 |
| **Japan** | | | | | | | |
| Nikkei 225(16/5/49) | 21560.47 | 21694.43 | 21791.70 | 21791.70 | 10/4 | 19734.70 | 13/3 |
| Nikkei 300(1/10/82) | 310.20 | 310.47 | 310.12 | 318.47 | 11/4 | 284.48 | 11/3 |

| | Apr 12 | Apr 11 | Apr 10 | 1996 High | | 1996 Low | |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |
| Cap. 40(1/7/86) | 2137.66 | 2139.95 | 2138.65 | 2203.06 | 4/1 | 2044.71 | 24/1 |
| **Norway** | | | | | | | |
| Oslo SE(Ind)(2/1/83) | 1386.88 | 1372.14 | 1357.65 | 1386.88 | 12/4 | 1258.88 | 30/1 |
| **Philippines** | | | | | | | |
| Manila Comp(2/1/85) | 2987.49 | 2990.24 | 2994.42 | 2994.42 | 10/4 | 2578.97 | 2/1 |
| **Portugal** | | | | | | | |
| BVL 30(4/1/93) | 1788.78 | 1782.45 | 1779.79 | 1788.78 | 12/4 | 1602.81 | 2/1 |
| **Singapore** | | | | | | | |
| SES All-S'pore(2/4/75) | 586.48 | 583.65 | 582.97 | 610.37 | 5/2 | 553.89 | 2/1 |
| **South Africa** | | | | | | | |
| JSE Gold(28/9/78) | 1827.2♥ | 1798.6 | 1774.9 | 1917.80 | 7/2 | 1348.40 | 2/1 |
| JSE Ind.(28/9/78) | 8061.0♥ | 8059.2 | 8085.3 | 8739.30 | 25/1 | 8008.40 | 2/1 |
| **South Korea** | | | | | | | |
| KoreaCmpEx**(4/1/80) | 889.75 | (c) | 869.17 | 890.68 | 5/2 | 838.87 | 13/3 |
| **Spain** | | | | | | | |
| Madrid SE(30/12/85) | 347.02 | 344.81 | 346.67 | 347.02 | 12/4 | 323.75 | 11/1 |
| **Sweden** | | | | | | | |
| AffarsvardnGen(1/2/37) | 1874.5 | 1878.5 | 1864.2 | 1927.00 | 19/3 | 1706.60 | 22/1 |
| **Switzerland** | | | | | | | |
| Swiss Bk Ind(31/12/58) | 1722.38 | 1715.18 | 1733.03 | 1784.95 | 27/3 | 1516.19 | 17/1 |
| SBC General(1/4/87) | 1222.16 | 1218.75 | 1229.78 | 1260.67 | 25/3 | 1114.47 | 26/1 |
| **Taiwan** | | | | | | | |
| WeightedPr.**(30/6/66) | 5945.06 | 5712.50 | 5768.03 | 5945.06 | 12/4 | 4690.22 | 6/2 |
| **Thailand** | | | | | | | |
| Bangkok SET(30/4/75) | (c) | 1331.02 | 1337.21 | 1415.04 | 6/2 | 1247.79 | 13/3 |
| **Turkey** | | | | | | | |
| Istanbul Comp(Jan 1986) | 70070.5 | 70650.3 | 71019.3 | 72066.80 | 8/4 | 38778.38 | 2/1 |
| **WORLD** | | | | | | | |
| MS Capital Intl(1/1/70) | 754.8* | 753.1 | 755.9 | 768.40 | 5/4 | 726.90 | 15/1 |
| **CROSS-BORDER** | | | | | | | |
| Eurotrack 100(26/10/90) | 1638.24 | 1640.35 | 1643.23 | 1643.23 | 10/4 | 1504.40 | 11/1 |
| Euro Top-100(26/6/90) | 1419.31 | 1418.23 | 1428.28 | 1428.28 | 10/4 | 1333.01 | 11/1 |
| HSBC JC Drgn(31/12/88) | (u) | 377.18 | 380.04 | 382.62 | 19/2 | 344.18 | 2/1 |
| ING Brngs Emrg(7/1/92) | 158.86 | 157.69 | 157.21 | 162.72 | 5/2 | 147.35 | 2/1 |

## INDEX FUTURES

| | Open | Sett Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| **CAC-40 (200 x Index) (Apr 4)** | | | | | | | |
| Apr | 2074.0 | 2079.5 | +13.5 | 2080.0 | 2060.0 | 12,207 | 32,624 |
| May | 2063.5 | 2069.0 | +13.5 | 2066.5 | 2056.0 | 263 | 5,309 |
| **DAX** | | | | | | | |
| Mar | 2524.0 | 2535.0 | +22.0 | 2536.0 | 2511.0 | 15,486 | - |
| Jun | 2543.5 | 2554.5 | +20.5 | 2553.0 | 2531.5 | 221 | - |
| **OMX** | | | | | | | |
| Apr | 1472.0 | 1459.00 | -8.00 | 1478.00 | 1456.05 | 3,314 | 15,277 |
| May | 1453.50 | 1448.25 | -7.75 | 1458.00 | 1448.25 | 355 | 2,543 |
| **SOFFEX** | | | | | | | |
| Apr | 3569.0 | 3571.90 | +10.5 | 3573.0 | 3555.0 | 5,503 | 21,732 |
| May | 3550.0 | 3557.0 | -9.0 | 3558.0 | 3546.0 | 711 | 2,021 |

** Sat Apr 6: Taiwan Weighted Price 5581.13; Korea Comp Ex 876.88. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ◆ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Apr 12 - 2526.74 +18.62

## US INDICES

| | Apr 12 | Apr 11 | Apr 10 | 1996 High | 1996 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |
| **Standard and Poors** | | | | | | | |
| Composite‡ | 636.71 | 631.18 | 633.50 | 661.45 (12/2) | 598.48 (10/1) | 661.45 (12/2/96) | 4.40 (1/6/32) |
| Industrials♥ | 754.96 | 750.51 | 752.22 | 776.23 (22/2) | 702.07 (15/1) | 776.23 (22/2/96) | 3.62 (21/6/32) |
| Financial | 64.68 | 63.13 | 63.70 | 68.66 (5/3) | 58.67 (10/1) | 68.66 (5/3/96) | 8.64 (1/10/74) |
| NYSE Comp. | 342.41 | 339.35 | 340.93 | 351.92 (4/4) | 321.41 (10/1) | 351.92 (4/4/96) | 4.46 (25/4/42) |
| Amex Mkt Val | 572.26 | 570.19 | 569.96 | 577.10 (4/4) | 520.05 (18/1) | 577.10 (4/4/96) | 29.31 (9/12/72) |
| NASDAQ Cmp | 1100.04 | 1097.14 | 1105.26 | 1118.21 (4/4) | 988.57 (15/1) | 1118.21 (4/4/96) | 54.87 (31/10/72) |

### RATIOS

| | Apr 5 | Mar 29 | Mar 22 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 2.11 | 2.15 | 2.13 | 2.61 |
| | Apr10 | Apr 3 | Mar 27 | Year ago |
| S & P Ind. Div. yield | 1.92 | 1.86 | 1.87 | 2.26 |
| S & P Ind. P/E ratio | 20.83 | 21.43 | 21.21 | 18.11 |

### NEW YORK ACTIVE STOCKS

| Friday | Stocks traded | Close price | Change on day |
|---|---|---|---|
| Bay Network | 11,092,900 | 27 | -3⅛ |
| IBM | 7,763,500 | 111½ | -5⅝ |
| Telefonos | 7,758,300 | 34¾ | +1½ |
| Wal-Mart | 4,642,000 | 22⅝ | +⅜ |
| Home Depot | 3,988,500 | 44⅝ | +1⅛ |
| Trump Hotels | 3,881,100 | 31¼ | ..... |
| Federal Natl | 3,778,500 | 30⅝ | +1¼ |
| AT & T | 3,489,900 | 62⅝ | +1 |
| State Cont | 2,842,100 | 14¼ | -¾ |
| Gap Inc | 2,839,900 | 29 | 1 |

### TRADING ACTIVITY

| ● Volume (million) | Apr 12 | Apr 11 | Apr 10 |
|---|---|---|---|
| New York SE | 414.239 | 523.721 | 477.971 |
| Amex | 208.713 | 25.719 | 21.841 |
| NASDAQ | (u) | 546.585 | 589.543 |
| **NYSE** | | | |
| Issues Traded | 3,112 | 3,131 | 3,122 |
| Rises | 1,561 | 858 | 839 |
| Falls | 825 | 1,527 | 1,586 |
| Unchanged | 726 | 746 | 697 |
| New Highs | 65 | 39 | 101 |
| New Lows | 13 | 40 | 29 |

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| **S&P 500** | | | | | | | |
| Jun | 633.50 | 640.60 | +7.00 | 640.80 | 633.20 | 101,661 | 176,113 |
| Sep | 641.50 | 646.00 | +7.15 | 646.30 | 640.70 | 751 | 5,377 |
| **Nikkei 225** | | | | | | | |
| Jun | 21740.0 | 21780.0 | -40.0 | 21880.0 | 21680.0 | 23,210 | 256,938 |
| Sep | 21800.0 | 21800.0 | -60.0 | 21800.0 | 21800.0 | 2 | 13,011 |

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on daily [illegible] 1996. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

FT FREE ANNUAL REPORTS SERVICE

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code [illegible] 0181 770 0770 (open 24 hours including weekends) or fax 0181 770 3822. If calling from outside UK, dial +44 181 770 0770 or fax +44 181 770 3822. Reports will be sent [illegible] working day [illegible] availability.

### TOKYO - MOST ACTIVE STOCKS: Friday, April 12, 1996

| | Stocks Traded | Closing Prices | Change on day |
|---|---|---|---|
| Nippon Stl Corp | 30.0m | 382 | +4 |
| NKK Corp | 29.5m | 342 | +7 |
| Sumitomo Mtl Ind | 16.7m | 344 | +5 |
| UBE Industries | 16.6m | 440 | +10 |
| Mitsui E & S Bld | 14.5m | 351 | +1 |
| Mitsubishi Hvy | [illegible] | 957 | +3 |
| Japan Energy | 13.5m | 424 | +17 |
| Nissho Iwai | [illegible] | 602 | +12 |
| Takasaki Paper | 9.2m | 410 | +37 |
| Kanematsu Corp | 8.6m | 595 | [illegible] |

صكنا من الاصل

# CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

| Apr 12 | | Closing mid-point | Change on day | Bid/offer spread | Day's Mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | Bank of Eng. Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 15.9813 | +0.0003 | 744 - 882 | 15.9985 | 15.8479 | 15.951 | 2.3 | 15.8688 | 2.0 | - | - | 105.5 |
| Belgium | (BFr) | 46.8539 | -0.0185 | 144 - 939 | 46.7380 | 46.5370 | 46.6684 | 2.7 | 46.3999 | 2.7 | 45.4189 | 2.6 | 107.7 |
| Denmark | (DKr) | 8.7708 | -0.0011 | 663 - 749 | 8.7837 | 8.7521 | 8.7603 | 1.8 | 8.7344 | 1.7 | 8.6278 | 1.6 | 108.3 |
| Finland | (FM) | 7.1104 | +0.0058 | 044 - 163 | 7.1240 | 7.0850 | 7.1002 | 0.7 | 7.0979 | 0.7 | - | - | 82.6 |
| France | (FFr) | 7.7144 | -0.0073 | 106 - 182 | 7.7822 | 7.6879 | 7.7066 | 2.0 | 7.6780 | 1.8 | 7.5787 | 1.6 | 109.6 |
| Germany | (DM) | 2.2725 | - | 718 - 734 | 2.2786 | 2.2672 | 2.2673 | 2.7 | 2.2578 | 2.7 | 2.2105 | 2.7 | 109.4 |
| Greece | (Dr) | 366.173 | -0.258 | 722 - 624 | 366.673 | 366.260 | - | - | - | - | - | - | 68.9 |
| Ireland | (I£) | 0.9891 | +0.0014 | 883 - 899 | 0.9903 | 0.9858 | 0.987 | 0.9 | 0.9868 | 0.9 | 0.9818 | 0.7 | 97.8 |
| Italy | (L) | 2377.31 | +3.26 | 622 - 834 | 2376.74 | 2369.09 | 2382.3 | -4.2 | 2400.86 | -3.9 | 2453.36 | -3.2 | 74.6 |
| Luxembourg | (LFr) | 46.8539 | -0.0185 | 144 - 939 | 46.7380 | 46.5370 | 46.6684 | 2.7 | 46.3999 | 2.7 | 45.4189 | 2.6 | 107.7 |
| Netherlands | (Fl) | 2.5398 | +0.0002 | 373 - 398 | 2.5431 | 2.5338 | 2.5326 | 2.8 | 2.5204 | 2.9 | 2.4687 | 2.8 | 107.9 |
| Norway | (NKr) | 9.8122 | -0.0118 | 046 - 198 | 9.8309 | 9.7728 | 9.815 | 1.1 | 9.7841 | 1.1 | 9.6664 | 1.2 | 98.8 |
| Portugal | (Es) | 233.519 | -0.015 | 434 - 603 | 233.834 | 230.278 | 233.989 | -2.2 | 234.849 | -2.3 | - | - | 95.5 |
| Spain | (Pta) | 189.842 | -0.413 | 736 - 948 | 190.171 | 189.734 | 190.567 | -5.0 | 190.847 | -1.7 | 192.302 | -1.3 | 82.0 |
| Sweden | (SKr) | 10.1453 | +0.0085 | 373 - 533 | 10.1624 | 10.1024 | 10.1593 | -0.1 | 10.1482 | -0.1 | 10.1304 | -0.1 | 88.1 |
| Switzerland | (SFr) | 1.8485 | +0.0051 | 473 - 496 | 1.8523 | 1.8405 | 1.837 | 4.2 | 1.8284 | 4.1 | 1.7725 | 4.1 | 113.1 |
| UK | (£) | - | - | - | - | - | - | - | - | - | - | - | 83.6 |
| Ecu | - | 1.2153 | -0.0002 | 145 - 160 | 1.2170 | 1.2134 | 1.2142 | 1.5 | 1.211 | 1.4 | 1.1977 | 1.5 | - |
| SDR† | - | 1.045300 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 1.5097 | -0.0024 | 090 - 104 | 1.5144 | 1.5090 | - | - | - | - | - | - | - |
| Brazil | (R$) | 1.4954 | -0.005 | 952 - 965 | 1.5026 | 1.4951 | - | - | - | - | - | - | - |
| Canada | (C$) | 2.0496 | -0.0032 | 488 - 505 | 2.0536 | 2.0472 | 2.0521 | 0.4 | 2.0459 | 0.8 | 2.0372 | 0.8 | 85.0 |
| Mexico (New Peso) | | 11.3272 | -0.0189 | 204 - 340 | 11.3748 | 11.3200 | - | - | - | - | - | - | - |
| USA | ($) | 1.5113 | -0.0024 | 110 - 118 | 1.5146 | 1.5092 | 1.5131 | 0.5 | 1.5095 | 0.5 | 1.5043 | 0.5 | 96.8 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.9122 | -0.0057 | 112 - 132 | 1.9177 | 1.9055 | 1.9204 | -1.6 | 1.9196 | -1.6 | 1.945 | -1.7 | 93.6 |
| Hong Kong | (HK$) | 11.6869 | -0.0181 | 836 - 900 | 11.7112 | 11.6714 | 11.6869 | 0.8 | 11.6672 | 0.7 | 11.6474 | 0.3 | - |
| India | (Rs) | 51.6110 | -0.1576 | 468 - 723 | 51.6270 | 51.4495 | - | - | - | - | - | - | - |
| Israel | (Shk) | 4.7619 | -0.0082 | 578 - 659 | 4.7666 | 4.7576 | - | - | - | - | - | - | - |
| Japan | (Y) | 164.241 | +0.02 | 170 - 311 | 164.630 | 163.730 | 163.498 | 5.3 | 162.026 | 5.4 | 156.611 | 5.3 | 134.4 |
| Malaysia | (M$) | 3.8049 | +0.0008 | 027 - 065 | 3.8102 | 3.7966 | - | - | - | - | - | - | - |
| New Zealand | (NZ$) | 2.2329 | -0.0039 | 318 - 341 | 2.2392 | 2.2265 | 2.2418 | -2.7 | 2.2473 | -2.6 | 2.2812 | -2.2 | 106.6 |
| Philippines | (Peso) | 39.5734 | -0.0706 | 824 - 644 | 39.6714 | 39.4650 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 5.6680 | -0.0092 | 666 - 693 | 5.6801 | 5.6606 | - | - | - | - | - | - | - |
| Singapore | (S$) | 2.1325 | +0.0016 | 313 - 336 | 2.1363 | 2.1261 | - | - | - | - | - | - | - |
| South Africa | (R) | 6.2606 | -0.0213 | 518 - 694 | 6.3122 | 6.2061 | - | - | - | - | - | - | - |
| South Korea | (Won) | 1182.97 | -0.97 | 266 - 328 | 1185.46 | 1180.83 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 41.0635 | -0.0653 | 478 - 792 | 41.1456 | 41.0056 | - | - | - | - | - | - | - |
| Thailand | (Bt) | 38.2593 | -0.0826 | 479 - 707 | 38.3350 | 38.2250 | - | - | - | - | - | - | - |

† Rates for Apr 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

| Apr 12 | | Closing mid-point | Change on day | Bid/offer spread | Day's mid high | low | One month Rate | %PA | Three months Rate | %PA | One year Rate | %PA | J.P Morgan Index |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | | | | | | | | | | | | |
| Austria | (Sch) | 10.5746 | +0.017 | 721 - 770 | 10.5970 | 10.5470 | 10.5573 | 2.0 | 10.5211 | 2.0 | 10.3596 | 2.0 | 105.5 |
| Belgium | (BFr) | 30.8700 | +0.036 | 500 - 900 | 30.9110 | 30.8070 | 30.817 | 2.1 | 30.7105 | 2.1 | 30.23 | 2.1 | 107.3 |
| Denmark | (DKr) | 5.8035 | +0.0085 | 020 - 050 | 5.8154 | 5.7886 | 5.7985 | 1.0 | 5.7885 | 1.0 | 5.811 | -0.1 | 107.6 |
| Finland | (FM) | 4.7046 | +0.0112 | 018 - 078 | 4.7119 | 4.6903 | 4.6983 | 1.7 | 4.6863 | 1.6 | 4.6408 | 1.4 | 81.9 |
| France | (FFr) | 5.1045 | +0.0033 | 030 - 060 | 5.1152 | 5.0910 | 5.0984 | 1.4 | 5.0866 | 1.2 | 5.0465 | 1.1 | 109.3 |
| Germany | (DM) | 1.5037 | +0.0024 | 034 - 040 | 1.5070 | 1.4997 | 1.501 | 2.2 | 1.4959 | 2.1 | 1.472 | 2.1 | 109.8 |
| Greece | (Dr) | 242.290 | +0.215 | 040 - 540 | 242.750 | 241.590 | 243.965 | -8.3 | 247.315 | -8.3 | 261.29 | -7.8 | 68.4 |
| Ireland | (I£) | 1.5595 | -0.0046 | 585 - 605 | 1.5642 | 1.5592 | 1.56 | -0.3 | 1.5603 | -0.2 | 1.5487 | 0.6 | - |
| Italy | (L) | 1573.03 | +4.65 | 266 - 339 | 1573.50 | 1565.00 | 1579.08 | -4.6 | 1590.63 | -4.5 | 1631.53 | -3.7 | 74.0 |
| Luxembourg | (LFr) | 30.8700 | +0.036 | 500 - 900 | 30.9110 | 30.8070 | 30.817 | 2.1 | 30.7105 | 2.1 | 30.23 | 2.1 | 107.3 |
| Netherlands | (Fl) | 1.6797 | +0.0026 | 792 - 802 | 1.6834 | 1.6759 | 1.6766 | 2.2 | 1.6704 | 2.2 | 1.6432 | 2.2 | 107.4 |
| Norway | (NKr) | 6.4926 | +0.0025 | 868 - 983 | 6.5117 | 6.4823 | 6.4897 | 0.5 | 6.4841 | 0.5 | 6.4476 | 0.7 | 97.9 |
| Portugal | (Es) | 154.515 | +0.235 | 490 - 540 | 155.880 | 152.310 | 154.83 | -2.4 | 155.42 | -2.3 | 157.565 | -2.0 | 95.6 |
| Spain | (Pta) | 125.615 | -0.075 | 570 - 660 | 125.880 | 125.510 | 125.865 | -2.4 | 126.295 | -2.2 | 127.835 | -1.8 | 81.5 |
| Sweden | (SKr) | 6.7130 | +0.0062 | 090 - 169 | 6.7295 | 6.6815 | 6.7241 | -2.0 | 6.7415 | -1.7 | 6.7935 | -1.1 | 88.5 |
| Switzerland | (SFr) | 1.2231 | +0.0053 | 226 - 236 | 1.2253 | 1.2190 | 1.2195 | 3.6 | 1.2123 | 3.5 | 1.1804 | 3.6 | 112.8 |
| UK | (£) | 1.5113 | -0.0024 | 110 - 116 | 1.5146 | 1.5092 | 1.5107 | 0.5 | 1.5098 | 0.5 | 1.5043 | 0.5 | 83.1 |
| Ecu | - | 1.2436 | -0.0016 | 431 - 441 | 1.2459 | 1.2421 | 1.2444 | -0.7 | 1.246 | -0.8 | 1.2546 | -0.9 | - |
| SDR† | - | 0.69150 | - | - | - | - | - | - | - | - | - | - | - |
| **Americas** | | | | | | | | | | | | | |
| Argentina | (Peso) | 0.9990 | - | 987 - 992 | 1.0004 | 0.9990 | - | - | - | - | - | - | - |
| Brazil | (R$) | 0.9901 | -0.0018 | 900 - 902 | 0.9925 | 0.9898 | - | - | - | - | - | - | - |
| Canada | (C$) | 1.3562 | - | 559 - 564 | 1.3598 | 1.3557 | 1.356 | 0.1 | 1.3563 | 0.0 | 1.3591 | -0.2 | 84.3 |
| Mexico (New Peso) | | 7.4950 | -0.0005 | 920 - 980 | 7.4980 | 7.4920 | 7.4973 | -0.4 | 7.5004 | -0.3 | 7.5053 | -0.1 | - |
| USA | ($) | - | - | - | - | - | - | - | - | - | - | - | 97.5 |
| **Pacific/Middle East/Africa** | | | | | | | | | | | | | |
| Australia | (A$) | 1.2652 | -0.0017 | 649 - 657 | 1.2661 | 1.2626 | 1.2672 | -1.9 | 1.2707 | -1.7 | 1.2894 | -1.9 | 94.6 |
| Hong Kong | (HK$) | 7.7330 | +0.0008 | 325 - 335 | 7.7340 | 7.7324 | 7.7337 | -0.1 | 7.7356 | -0.1 | 7.7625 | -0.4 | - |
| India | (Rs) | 34.1500 | -0.05 | 500 - 500 | 34.3000 | 34.0450 | 34.3 | -5.3 | 34.605 | -5.3 | 36.075 | -5.6 | - |
| Israel | (Shk) | 3.1509 | +0.0009 | 488 - 529 | 3.1530 | 3.1487 | - | - | - | - | - | - | - |
| Japan | (Y) | 108.675 | +0.165 | 650 - 700 | 108.980 | 108.310 | 108.23 | 4.9 | 107.33 | 5.0 | 103.59 | 4.7 | 134.9 |
| Malaysia | (M$) | 2.5172 | +0.0045 | 167 - 177 | 2.5180 | 2.5132 | 2.5181 | -0.4 | 2.5242 | -1.1 | 2.5477 | -1.2 | - |
| New Zealand | (NZ$) | 1.4773 | -0.0002 | 769 - 780 | 1.4784 | 1.4746 | 1.4804 | -2.5 | 1.4862 | -2.4 | 1.5108 | -2.3 | - |
| Philippines | (Peso) | 26.1850 | -0.005 | 300 - 400 | 26.2400 | 26.1300 | - | - | - | - | - | - | - |
| Saudi Arabia | (SR) | 3.7504 | -0.0001 | 502 - 505 | 3.7505 | 3.7502 | 3.7508 | -0.1 | 3.7515 | -0.1 | 3.7549 | -0.1 | - |
| Singapore | (S$) | 1.4110 | +0.0032 | 105 - 115 | 1.4115 | 1.4085 | 1.4075 | 3.0 | 1.4015 | 2.7 | 1.376 | 2.5 | - |
| South Africa | (R) | 4.1425 | -0.0075 | 375 - 475 | 4.1725 | 4.1100 | 4.1712 | -8.3 | 4.2228 | -7.7 | 4.446 | -7.3 | - |
| South Korea | (Won) | 782.750 | +0.6 | 700 - 800 | 783.100 | 781.800 | - | - | - | - | - | - | - |
| Taiwan | (T$) | 27.1710 | - | 660 - 760 | 27.1810 | 27.1600 | 27.191 | -0.9 | 27.231 | -0.9 | - | - | - |
| Thailand | (Bt) | 25.3155 | -0.0145 | 130 - 180 | 25.3450 | 25.3120 | 25.4142 | -4.7 | 25.616 | -4.8 | 26.5005 | -4.7 | - |

† SDR rate per $ for Apr 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Apr 11: Base average 1990=100. The FT will not be published on Friday, April 5th. Exchange rates for April 5th will appear in Saturday April 6th edition. Exchange rates for Thursday April 4th will not be published but are available on Cityline 0891 437001

## WORLD INTEREST RATES

### MONEY RATES

| April 12 | Over night | One month | Three mths | Six mths | One year | Lomb. inter. | Dis. rate | Repo rate |
|---|---|---|---|---|---|---|---|---|
| Belgium | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 3.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 7.00 | 3.00 | - |
| France | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 3.70 | - | 5.60 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 3.60 | - | 5.60 |
| Germany | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 3.00 | 3.30 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 3.00 | 3.30 |
| Ireland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.25 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | - | 6.25 |
| Italy | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 9.00 | 10.00 |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 9.00 | 10.00 |
| Netherlands | 3 | 3 | 3 | 3 | [illegible] | - | 3.00 | 3.30 |
| week ago | 3 | 3 | 3 | 3 | [illegible] | - | 3.00 | 3.30 |
| Switzerland | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 1.50 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | 5.00 | 1.50 | - |
| US | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 5.00 | - |
| Japan | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| week ago | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | - | 0.50 | - |
| **$ LIBOR FT London** | | | | | | | | |
| Interbank Fixing | - | 5 1/4 | 5 7/16 | 5 5/8 | 5 13/16 | - | - | - |
| week ago | - | 5 1/4 | 5 3/8 | 5 1/2 | 5 5/8 | - | - | - |
| US Dollar CDs | - | 5.13 | 5.16 | 5.31 | 5.65 | - | - | - |
| week ago | - | 5.13 | 5.11 | 5.18 | 5.41 | - | - | - |
| ECU Linked Ds | - | 4 13/16 | 4 3/4 | 4 13/16 | 4 1/2 | - | - | - |
| week ago | - | 4 13/16 | 4 3/4 | 4 3/4 | 4 5/8 | - | - | - |
| SDR Linked Ds | - | 3 3/4 | 3 13/16 | 3 7/8 | 3 15/16 | - | - | - |
| week ago | - | 3 3/4 | 3 13/16 | 3 7/8 | 3 15/16 | - | - | - |

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

### EURO CURRENCY INTEREST RATES

| Apr 12 | Short term | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Belgian Franc | 3 1/2 - 3 1/4 | 3 3/8 - 3 1/4 | 3 3/8 - 3 1/4 | 3 3/8 - 3 3/16 | 3 7/16 - 3 5/16 | 3 7/16 - 3 5/16 |
| Danish Krone | 4 5/8 - 3 29/32 | 4 1/8 - 3 27/32 | 4 1/16 - 3 7/8 | 4 1/32 - 3 29/32 | 4 1/32 - 3 29/32 | 4 3/8 - 4 1/8 |
| D-Mark | 3 7/16 - 3 5/16 | 3 7/16 - 3 5/16 | 3 3/8 - 3 1/4 | 3 11/32 - 3 7/32 | 3 11/32 - 3 7/32 | 3 11/16 - 3 7/16 |
| Dutch Guilder | 3 1/16 - 3 | 3 1/16 - 2 15/16 | 3 - 2 15/16 | 3 - 2 15/16 | 3 - 2 15/16 | 3 3/16 - 3 1/16 |
| French Franc | 4 1/8 - 3 27/32 | 3 29/32 - 3 27/32 | 4 1/32 - 3 7/8 | 4 1/32 - 3 29/32 | 4 1/8 - 3 29/32 | 4 3/8 - 4 3/16 |
| Portuguese Esc. | 7 5/8 - 7 15/32 | 7 19/32 - 7 15/32 | 7 5/8 - 7 1/2 | 7 5/8 - 7 1/2 | 7 5/8 - 7 1/2 | 7 3/8 - 7 5/8 |
| Spanish Peseta | 7 27/32 - 7 23/32 | 7 27/32 - 7 23/32 | 7 27/32 - 7 23/32 | 7 3/4 - 7 5/8 | 7 3/4 - 7 5/8 | 7 25/32 - 7 21/32 |
| Sterling | 6 - 5 7/8 | 5 15/16 - 5 13/16 | 5 31/32 - 5 27/32 | 6 - 5 31/32 | 6 3/16 - 6 1/16 | 6 7/16 - 6 5/16 |
| Swiss Franc | 2 1/16 - 1 15/16 | 2 - 1 7/8 | 1 7/8 - 1 3/4 | 1 7/8 - 1 3/4 | 1 7/8 - 1 3/4 | 2 - 1 7/8 |
| Can. Dollar | 5 1/8 - 4 15/16 | 5 1/8 - 4 15/16 | 5 1/16 - 4 15/16 | 5 3/16 - 5 1/16 | 5 3/8 - 5 1/4 | 5 3/4 - 5 5/8 |
| US Dollar | 5 5/16 - 5 3/16 | 5 3/8 - 5 1/4 | 5 7/16 - 5 1/4 | 5 1/2 - 5 3/8 | 5 3/4 - 5 5/8 | 5 31/32 - 5 5/8 |
| Italian Lira | 9 15/16 - 9 13/16 | 9 29/32 - 9 13/16 | 9 29/32 - 9 25/32 | 9 29/32 - 9 25/32 | 9 7/8 - 9 3/4 | 9 3/4 - 9 5/8 |
| Yen | 1/2 - 7/16 | 7/16 - 5/16 | 9/16 - 7/16 | 9/16 - 7/16 | 23/32 - 19/32 | 1 1/32 - 31/32 |
| Asian $Sing | 1 1/2 - 1 3/8 | 1 7/8 - 1 3/4 | 2 - 1 7/8 | 2 3/16 - 2 1/16 | 2 3/16 - 2 1/16 | 2 5/8 - 2 1/2 |

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.45 | 94.50 | +0.05 | 94.52 | 94.45 | 83,149 | 397,951 |
| Sep | 94.24 | 94.36 | +0.12 | 94.37 | 94.23 | 108,007 | 361,392 |
| Dec | 93.90 | 94.07 | +0.18 | 94.09 | 93.90 | 215,044 | 338,085 |

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 94.98 | 95.00 | +0.04 | 95.01 | 94.97 | 237 | 9,267 |
| Sep | 94.74 | 94.83 | +0.10 | 94.84 | 94.74 | 156 | 3,742 |
| Dec | 94.53 | 94.59 | +0.16 | 94.59 | 94.53 | 121 | 716 |

All Open interest figs. are for previous day

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

| Apr 12 | | BFr | DKr | FFr | DM | I£ | L | Fl | NKr | Es | Pta | SKr | SFr | £ | C$ | $ | Y | Ecu |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Belgium | (BFr) | 100 | 18.80 | 16.54 | 4.872 | 2.077 | 5095 | 5.441 | 21.03 | 500.5 | 408.9 | 21.76 | 3.961 | 2.144 | 4.392 | 3.239 | 352.0 | 2.606 |
| Denmark | (DKr) | 53.19 | 10 | 8.795 | 2.591 | 1.105 | 2710 | 2.894 | 11.19 | 266.2 | 216.4 | 11.57 | 2.107 | 1.140 | 2.336 | 1.723 | 187.2 | 1.385 |
| France | (FFr) | 60.47 | 11.37 | 10 | 2.947 | 1.256 | 3081 | 3.290 | 12.72 | 302.7 | 246.0 | 13.16 | 2.396 | 1.296 | 2.656 | 1.959 | 212.9 | 1.575 |
| Germany | (DM) | 20.52 | 3.859 | 3.394 | 1 | 0.426 | 1046 | 1.117 | 4.317 | 102.7 | 83.50 | 4.465 | 0.813 | 0.440 | 0.901 | 0.665 | 72.24 | 0.535 |
| Ireland | (I£) | 48.14 | 9.052 | 7.961 | 2.346 | 1 | 2453 | 2.619 | 10.13 | 241.0 | 195.9 | 10.47 | 1.907 | 1.032 | 2.115 | 1.559 | 169.5 | 1.254 |
| Italy | (L) | 1.963 | 0.369 | 0.325 | 0.096 | 0.041 | 100. | 0.107 | 0.413 | 9.823 | 7.985 | 0.427 | 0.078 | 0.042 | 0.086 | 0.064 | 6.906 | 0.051 |
| Netherlands | (Fl) | 18.38 | 3.456 | 3.039 | 0.896 | 0.382 | 936.6 | 1 | 3.866 | 92.00 | 74.78 | 3.999 | 0.728 | 0.394 | 0.807 | 0.595 | 64.70 | 0.479 |
| Norway | (NKr) | 47.54 | 8.939 | 7.862 | 2.317 | 0.988 | 2423 | 2.587 | 10 | 238.0 | 193.4 | 10.34 | 1.883 | 1.019 | 2.088 | 1.540 | 167.3 | 1.238 |
| Portugal | (Es) | 19.98 | 3.756 | 3.304 | 0.973 | 0.415 | 1018 | 1.087 | 4.202 | 100. | 81.28 | 4.347 | 0.791 | 0.428 | 0.878 | 0.647 | 70.32 | 0.520 |
| Spain | (Pta) | 24.58 | 4.621 | 4.064 | 1.198 | 0.511 | 1252 | 1.337 | 5.170 | 123.0 | 100. | 5.348 | 0.974 | 0.527 | 1.080 | 0.796 | 86.51 | 0.640 |
| Sweden | (SKr) | 45.96 | 8.641 | 7.600 | 2.239 | 0.955 | 2342 | 2.500 | 9.667 | 230.0 | 187.0 | 10 | 1.821 | 0.985 | 2.019 | 1.489 | 161.8 | 1.197 |
| Switzerland | (SFr) | 25.24 | 4.746 | 4.174 | 1.230 | 0.524 | 1286 | 1.373 | 5.310 | 126.4 | 102.7 | 5.492 | 1 | 0.541 | 1.109 | 0.818 | 88.85 | 0.657 |
| UK | (£) | 46.65 | 8.771 | 7.714 | 2.273 | 0.969 | 2377 | 2.538 | 9.812 | 233.5 | 189.8 | 10.15 | 1.848 | 1 | 2.049 | 1.511 | 164.2 | 1.215 |
| Canada | (C$) | 22.77 | 4.281 | 3.765 | 1.109 | 0.473 | 1160 | 1.239 | 4.789 | 114.0 | 92.63 | 4.954 | 0.902 | 0.488 | 1 | 0.737 | 80.14 | 0.593 |
| US | ($) | 30.87 | 5.805 | 5.105 | 1.504 | 0.641 | 1573 | 1.680 | 6.494 | 154.5 | 125.6 | 6.717 | 1.223 | 0.662 | 1.356 | 1 | 108.7 | 0.804 |
| Japan | (Y) | 28.41 | 5.342 | 4.698 | 1.384 | 0.590 | 1448 | 1.546 | 5.976 | 142.2 | 115.6 | 6.181 | 1.125 | 0.609 | 1.248 | 0.920 | 100. | 0.740 |
| Ecu | | 38.40 | 7.219 | 6.349 | 1.871 | 0.798 | 1956 | 2.089 | 8.078 | 192.2 | 156.2 | 8.354 | 1.521 | 0.823 | 1.686 | 1.244 | 135.1 | 1 |

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

| | Open | Sett price | Change | High | Low. | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.6682 | 0.6674 | -0.0011 | 0.6691 | 0.6663 | 37,491 | 75,603 |
| Sep | 0.6722 | 0.6712 | -0.0012 | 0.6723 | 0.6703 | 71 | 2,213 |
| Dec | - | 0.6751 | -0.0013 | - | 0.6750 | 3 | 195 |

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.8242 | 0.8200 | -0.0046 | 0.8264 | 0.8193 | 14,658 | 36,638 |
| Sep | 0.8306 | 0.8274 | -0.0048 | 0.8319 | 0.8269 | 684 | 1,367 |
| Dec | - | 0.8349 | -0.0050 | - | 0.8347 | 1 | 650 |

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 0.9307 | 0.9294 | -0.0010 | 0.9307 | 0.9259 | 15,487 | 80,017 |
| Sep | 0.9401 | 0.9407 | -0.0011 | 0.9405 | 0.9390 | 4 | 2,129 |
| Dec | 0.9500 | 0.9520 | -0.0013 | 0.9520 | 0.9500 | 2 | 1,069 |

■ STERLING FUTURES (IMM) £62,500 per £

| | Open | Sett price | Change | High | Low | Est.vol | Open int. |
|---|---|---|---|---|---|---|---|
| Jun | 1.5086 | 1.5136 | +0.0022 | 1.5140 | 1.5084 | 36,268 | 50,887 |
| Sep | 1.5100 | 1.5122 | +0.0022 | 1.5120 | 1.5080 | 17 | 64 |
| Dec | - | 1.5106 | +0.0020 | 1.5100 | 1.5060 | 8 | 32 |

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

| Strike Price | CALLS Apr | May | Jun | PUTS Apr | May | Jun |
|---|---|---|---|---|---|---|
| 1.490 | 2.22 | 2.40 | 2.76 | 0.01 | 0.25 | 0.64 |
| 1.500 | 1.22 | 1.62 | 2.16 | 0.01 | 0.38 | 0.97 |
| 1.510 | 0.27 | 1.00 | 1.58 | 0.12 | 0.75 | 1.39 |
| 1.520 | - | 0.55 | 1.12 | 0.63 | 1.30 | 1.93 |
| 1.530 | - | 0.26 | 0.76 | 1.63 | 2.01 | 2.51 |

Previous day's vol., Calls 12,368 Puts 8,317 . Prev. day's open int., Calls 185,265 Puts 180,108

■ Pound in New York

| Apr 12 | —Close— | —Prev. close— |
|---|---|---|
| £ spot | 1.5145 | 1.5129 |
| 1 mth | 1.5136 | 1.5114 |
| 3 mth | 1.5126 | 1.5102 |
| 1 yr | 1.5067 | 1.5055 |

**FT GUIDE to WORLD CURRENCIES**

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

## LONDON RECENT ISSUES: EQUITIES

| Issue price p | Amt paid up | Mkt. cap (£m.) | 1996 High | Low | Stock | Close price p | +/- | Net div. | Div. cov. | Grs yld | P/E net |
|---|---|---|---|---|---|---|---|---|---|---|---|
| - | F.P. | 28.4 | 702 | 675 | Abtrust Em Asia | 693 | | - | - | - | - |
| - | F.P. | 28.5 | 95 | 95 | Advent VCT | 95 | | - | - | - | - |
| - | F.P. | 12.8 | 26 1/2 | 20 | Aegis Wrts | 25 1/2 | -1/2 | - | - | - | - |
| - | F.P. | 14.3 | 95 | 95 | British Smlr Cos | 95 | | - | - | - | - |
| - | F.P. | 21.1 | 235 | 230 | Cambridge Wtr NV | 235 | | ††w16. | 3.1 | 8.6 | 4.7 |
| 73 | F.P. | 28.7 | 88 | 50 | Cliveden | 85 | | Ln1.6 | 3.0 | 2.4 | 17.5 |
| - | F.P. | 28.5 | 95 | 95 | Close Bros VCT | 95 | | - | - | - | - |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| 3 | F.P. | 4.96 | 4 | 3 1/2 | Silver Shield | 3 3/4 | | v- | - | - | 15.6 |
| 115 | F.P. | 16.1 | 136 | 116 | †Systs Integ Rsch | 120 | | - | - | - | - |
| - | F.P. | 16.3 | 513 | 503 | Taverners Tst Ut | 513 | | - | - | - | - |
| 135 | F.P. | 46.3 | 185 | 153 | Triad Group | 184 | | Rn2.35 | 3.0 | 1.6 | 24.4 |

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

## RIGHTS OFFERS

| Issue price p | Amount paid up | Latest Renun. date | 1996 High | Low | Stock | Closing price p | +or- |
|---|---|---|---|---|---|---|---|
| 675 | Nil | 20/4 | 93pm | 35pm | Eidos Uts 96/01 | 53pm | |
| 80 | Nil | 9/5 | 10pm | 6pm | Fairway Group | 6pm | -2 |
| 205 | Nil | 16/4 | 28pm | 5pm | GWR Uts 98/01 | 5pm | |
| 30 | Nil | 3/5 | 7pm | 6pm | Guiness Peat Grp | 6pm | |
| 675 | Nil | 18/4 | 110pm | 45pm | VDC | 70pm | |

pm premium.

## FT GOLD MINES INDEX

| | Apr 12 | % chg since 29/12/95 | Mkt Cap $bn | % of Gold Mines | Gross div yield % | P/E ratio | 52 week High | Low |
|---|---|---|---|---|---|---|---|---|
| Gold Mines Index (30) | 2339.59 | +22.3 | 58.83 | 100.00 | 1.38 | - | 2520.73 | 1722.93 |
| ■ Regional Indices | | | | | | | | |
| Africa (13) | 3075.95 | +22.9 | 16.35 | 27.78 | 2.64 | 35.73 | 3553.86 | 2272.74 |
| Australasia (5) | 2714.08 | +14.6 | 5.97 | 10.15 | 2.38 | 29.20 | 2927.34 | 2098.51 |
| North America (12) | 2077.73 | +23.4 | 36.51 | 62.08 | 0.85 | 67.09 | 2186.38 | 1488.94 |

Copyright, The Financial Times Limited 1996. "FT Gold Mines Index" is a trademark of The Financial Times Limited. Figures in brackets show number of companies. Base US Dollars. Base Values: 1000.00 31/12/92.

## UK INTEREST RATES

### LONDON MONEY RATES

| Apr 12 | Over-night | 7 days notice | One month | Three months | Six months | One year |
|---|---|---|---|---|---|---|
| Interbank Sterling | 7 1/4 - 5 1/4 | 6 1/8 - 5 7/8 | 6 - 5 7/8 | 6 1/8 - 6 | 6 1/8 - 6 | 6 7/16 - 6 5/16 |
| Sterling CDs | - | - | 6 - 5 15/16 | 6 - 5 29/32 | 6 1/16 - 6 | 6 5/16 - 6 1/4 |
| Treasury Bills | - | - | 5 29/32 - 5 7/8 | 5 27/32 - 5 13/16 | - | - |
| Bank Bills | - | - | 5 29/32 - 5 7/8 | 5 31/32 - 5 29/32 | 5 31/32 - 5 15/16 | - |
| Local authority deps. | 5 15/16 - 5 13/16 | 5 15/16 - 5 13/16 | 6 - 5 7/8 | 6 1/16 - 5 15/16 | 6 1/8 - 6 | 6 3/8 - 6 1/4 |
| Discount Market deps | 5 7/8 - 5 13/16 | 5 15/16 - 5 13/16 | - | - | - | - |

UK clearing bank base lending rate 6 per cent from March 8, 1996

| | Up to 1 month | 1-3 month | 3-6 months | 6-9 months | 9-12 months |
|---|---|---|---|---|---|
| Certs of Tax dep. (£100,000) | 2 1/2 | 5 1/2 | 5 | 5 | 4 3/4 |

Certs of Tax dep. under £100,000 is 2 1/2pc. Deposits withdrawn for cash 1 1/4pc.
Ave. tender rate of discount on Apr 12, 5.7965pc. ECGD fixed rate Stlg. Export Finance. Make up day Mar 29, 1996, Agreed rate for period Apr 26, 1996 to May 25, 1996, Schemes II & III 7.38pc. Reference rate for period Mar 1, 1996 to Mar 29, 1996, Schemes IV & V 6.133pc. Finance House Base Rate 6.5pc from April 1, 1996

### BANK OF ENGLAND TREASURY BILL TENDER

| | Apr 12 | Apr 4 | | Apr 12 | Apr 4 |
|---|---|---|---|---|---|
| Bills on offer | £800m | £800m | Top accepted rate | 5.7959% | 5.8159% |
| Total of applications | £5528m | £3363m | Ave. rate of discount | 5.7965% | 5.8151% |
| Total allocated | £1000m | £800m | Average yield | 5.8807 | 5.9006% |
| Min. accepted bid | £98.555 | £98.550 | Offer at next tender | £1000m | £800m |
| Allotment at min. level | 78% | 54% | Min. accept. bid 182 days | - | - |

## BANK RETURN

| BANKING DEPARTMENT | Wednesday April 10, 1996 | Increase or decrease for week |
|---|---|---|
| Liabilities | £ | £ |
| Capital | 14,553,000 | |
| Public deposits | 1,282,288,651 | +5,612,675 |
| Bankers deposits | 2,025,759,872 | +297,175,473 |
| Reserve and other accounts | 3,066,438,964 | -101,194,772 |
| | 6,399,038,487 | +201,593,576 |
| Assets | | |
| Government securities | 1,153,635,775 | +160,000 |
| Advance and other accounts | 1,620,203,165 | -1,497,623,233 |
| Premises, equipment and other secs | 3,621,999,846 | +1,701,287,281 |
| Notes | 3,025,795 | -2,738,683 |
| Coin | 174,089 | +8,281 |
| | 6,399,038,487 | +201,593,576 |
| ISSUE DEPARTMENT | | |
| Liabilities | | |
| Notes in circulation | 20,486,974,205 | +12,738,683 |
| Notes in Banking Department | 3,025,795 | -2,738,683 |
| | 20,490,000,000 | +10,000,000 |
| Assets | | |
| Other Government securities | 18,128,893,006 | +1,449,200,836 |
| Other Securities | 2,361,306,994 | -1,439,200,836 |
| | 20,490,000,000 | +10,000,000 |

## BASE LENDING RATES

Adam & Company ... 6.00; Allied Trust Bank ... 6.00; AIB Bank ... 6.00; •Henry Ansbacher ... 6.00; Bank of Baroda ... 6.00; Banco Bilbao Vizcaya ... 6.00; Bank of Cyprus ... 6.00; Bank of Ireland ... 6.00; Bank of India ... 6.00; Bank of Scotland ... 6.00; Barclays Bank ... 6.00; Brit Bk of Mid East ... 6.00; •Brown Shipley & Co Ltd ... 6.00; Citibank NA ... 6.00; Clydesdale Bank ... 6.00; The Co-operative Bank ... 6.00; Coutts & Co ... 6.00; Credit Lyonnais ... 6.00; Cyprus Popular Bank ... 6.00; Duncan Lawrie ... 6.00; Exeter Bank Limited ... 7.00; Financial & Gen Bank ... 7.00; •Robert Fleming & Co ... 6.00; Girobank ... 6.00; •Guinness Mahon ... 6.00; Habib Bank AG Zurich ... 6.00; •Hambros Bank ... 6.00; Heritable & Gen Inv Bk ... 6.00; •Hill Samuel ... 6.00; C. Hoare & Co ... 6.00; Hongkong & Shanghai ... 6.00; Julian Hodge Bank ... 6.00; •Leopold Joseph & Sons ... 6.00; Lloyds Bank ... 6.00; Meghraj Bank Ltd ... 6.00; Midland Bank ... 6.00; • Mount Credit Corp ... 6.00; NatWestminster ... 6.00; •Rea Brothers ... 6.00; Royal Bk of Scotland ... 6.00; •Singer & Friedlander ... 6.00; •Smith & Williamson Secs ... 6.00; TSB ... 6.00; United Bank of Kuwait ... 6.00; Unity Trust Bank Plc ... 6.00; Western Trust ... 6.00; Whiteaway Laidlaw ... 6.00; Yorkshire Bank ... 6.00

• Members of London Investment Banking Association
* In administration

## UK GILTS PRICES

[illegible]

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for July 1995: 149.1 and for February 1996: 150.9.

### Other Fixed Interest

[illegible]

• Tap stock. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

## STOCK INDICES

[illegible]

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

### BERMUDA (REGULATED)(**)

[illegible]

### GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

Sarasin Funds Mngmt (Guernsey) Ltd

[illegible]

Schroder Investment Mngmt (Guernsey) Ltd

[illegible]

### GUERNSEY (REGULATED)(**)

[illegible]

### IRELAND (SIB RECOGNISED)

[illegible]

LGT Asset Management Ltd

[illegible]

### IRELAND (REGULATED)(**)

[illegible]

Daiwa Europe Fund Mgrs Ireland Ltd - Contd.

[illegible]

Dragon Korea Fund Plc

[illegible]

Dresdner Kleinwort Benson Int Mgt Services Ltd

[illegible]

Dynamic Pacific Portfolio Fund Plc

[illegible]

East Asia Hamon Ireland Ltd

[illegible]

Egerton Capital European Fund Plc

[illegible]

Emerging Dynamic Fund Plc

[illegible]

Mercury Fund Managers IoM Ltd

[illegible]

Quilter Intl Mngt (IoM) Ltd

[illegible]

Sun Life Management (IoM) Ltd

[illegible]

Ulster Bank Global Funds Plc

[illegible]

Unibank Scandinavian Fund Ltd

[illegible]

### ISLE OF MAN (REGULATED)(**)

[illegible]

### JERSEY (SIB RECOGNISED)

[illegible]

### JERSEY (REGULATED)(**)

[illegible]

### ISLE OF MAN (SIB RECOGNISED)

[illegible]

INVESCO International Limited - Contd.

[illegible]

Jupiter Tyndall (Jersey) Ltd

[illegible]

Lloyds Private Banking (CI) Ltd

[illegible]

Lombard Odier (Jersey) Ltd

[illegible]

### LUXEMBOURG (SIB RECOGNISED)

[illegible]

Fidelity Funds (z)

[illegible]

S-E-Banken Luxembourg SA - Contd.

[illegible]

Sarasin Investment SICAV (z)

[illegible]

Schroder International Selection Fd (z)

[illegible]

### LUXEMBOURG (REGULATED)(**)

[illegible]

هكذا من الأصل



# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4378.

## OTHER OFFSHORE FUNDS

## OFFSHORE INSURANCES

## LONDON SHARE SERVICE

### ALCOHOLIC BEVERAGES

[illegible]

### BANKS, MERCHANT

[illegible]

### BANKS, RETAIL

[illegible]

### BREWERIES, PUBS & REST

[illegible]

### BUILDING & CONSTRUCTION

[illegible]

### BUILDING MATS. & MERCHANTS

[illegible]

### CHEMICALS

[illegible]

### DISTRIBUTORS

[illegible]

### DIVERSIFIED INDUSTRIALS

[illegible]

### ELECTRICITY

[illegible]

### ELECTRONIC & ELECTRICAL EQPT

[illegible]

### ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

### ENGINEERING

[illegible]

### ENGINEERING - Cont.

[illegible]

### ENGINEERING, VEHICLES

[illegible]

### EXTRACTIVE INDUSTRIES

[illegible]

### EXTRACTIVE INDUSTRIES - Cont.

[illegible]

### EXTRACTIVE INDUSTRIES - Cont.

[illegible]

### FOOD PRODUCERS

[illegible]

### GAS DISTRIBUTION

[illegible]

### HEALTH CARE

[illegible]

### HEALTH CARE - Cont.

[illegible]

### HOUSEHOLD GOODS

[illegible]

### INSURANCE

[illegible]

### INVESTMENT TRUSTS

[illegible]

### INVESTMENT TRUSTS - Cont.

[illegible]

### INV TRUSTS SPLIT CAPITAL

[illegible]

هكذا من الأصل





## INV TRUSTS SPLIT CAPITAL - Cont.

## OTHER INVESTMENT TRUSTS

## INVESTMENT COMPANIES

## LEISURE & HOTELS

## LIFE ASSURANCE

## MEDIA

## OIL EXPLORATION & PRODUCTION

## OIL, INTEGRATED

## OTHER FINANCIAL

## OTHER FINANCIAL - Cont.

## PAPER, PACKAGING & PRINTING

## PHARMACEUTICALS

## PROPERTY

## PROPERTY - Cont.

## RETAILERS, FOOD

## RETAILERS, GENERAL

## RETAILERS, GENERAL - Cont.

## SUPPORT SERVICES

## SUPPORT SERVICES - Cont.

## TELECOMMUNICATIONS

## TEXTILES & APPAREL

## TOBACCO

## TRANSPORT

## WATER

## AIM

## AIM - Cont.

## AMERICANS

## CANADIANS

## SOUTH AFRICANS

| | Notes | Price | W'k% ch'nge | Div net | Div cov. | Dividends paid | Last xd | City line |
|---|---|---|---|---|---|---|---|---|
| Anglo Am Ind | | 229¼ | — | 0545c | ♦ | May Oct | 3'93 | – |
| Barlow | ♣ | 571⁄2 | –3.7 | 084c | ♦ | Jan Jul | 11.12 | – |
| Energy Africa | | 159¾ | 1.5 | – | – | – | – | – |
| Gold Flds Prop R | | 140xq | 0.7 | 068c | 1.5 | Mar Sep | 26.2 | – |
| NK Props. | | 89 | –11.1 | 083.8c | – | Mar Sep | 1.9 | – |
| SASOL | ♥ | 871 | –5 | 078c | – | Oct | 9'93 | – |
| SA Brews | | 219⅝ | –1.3 | 0200c | 2.1 | Jun Dec | 27.11 | – |
| Standard Bank | | 128⅞ | –1.8 | 0284c | 3.1 | Sep Mar | – | – |
| Tiger Oats | | 918 | –6.7 | 0198c | ♦ | Jan Aug | 11.12 | – |
| Tongaat-Hulett | † | 929 | –2.8 | 0110c | 2.7 | Jan Jun | 4.12 | – |



## GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "v" is shown in the Notes field, indicating that the cover is calculated on a "net" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✝ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend: cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v P/e ratio & net cover calculated under new ACT guidelines. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

## FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Stadium (Eng), Avocet Mining (Exdn), Fleming Worldwide Inc, Zero Prf & Units, GT Inc Growth, Life Offices Opps, Schroder UK Gwth Fund (InTr), Macdonald Htls (L&H), Petroceltic (OIE), Chelsea Village, First Info (AIM). Deletions: Sth Wales Elec (Elec), Avocet Ventures (Exdn), Forte (L&H), Schroder Japan Wrts & USDC (InTr).

## ♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT9940. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

Both Annual Reports and FT Company Focus are available from the above number.

## ✝ FT Company Focus

Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.

To order, call 0121 200 4678.

Reports published by ShareFinder Ltd.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

The share prices printed on these pages are also available on the internet at www.FT.com.

4pm close April 12

# NEW YORK STOCK EXCHANGE COMPOSITE PRICES

| 1996 High | Low | Stock | Div | Yld % | P/E | Sls 100s | High | Low | Close Quote | Chng Prev. Close |
|---|---|---|---|---|---|---|---|---|---|---|
| 22½ | 19¼ | AAR | 0.48 | 2.4 | 21 | 272 | 19¾ | 19½ | 19⅝ | |
| 44¾ | 36⅞ | AMP | 1.00 | 2.3 | 21 | 5670 | 42⅝ | 41⅞ | 42⅝ | +⅝ |
| 93⅝ | 68 | AMR | | | 34 | 4024 | 87¾ | 86¼ | 86½ | -⅞ |
| 50½ | 37⅞ | ASA | 2.00 | 4.3 | 30 | 669 | 46¼ | 45½ | 46 | -⅝ |
| 44¾ | 38⅞ | AbbtL | 0.86 | 2.3 | 18 | 6583 | 41⅝ | 41¼ | 41½ | +¼ |
| 17¼ | 12⅝ | Abitibi Pr | 0.40 | 2.9 | 7 | 217 | 13⅞ | 13⅝ | 13⅞ | +¼ |
| 35⅝ | 27 | ABM Ind x | 0.70 | 2.1 | 17 | 50 | 33⅝ | 33⅜ | 33½ | -⅛ |
| 19½ | 13⅞ | Acpincin | | | 53 | 126 | 15 | 14⅝ | 14⅞ | -⅛ |
| 50⅝ | 37⅞ | ACE Ltd | 0.56 | 1.3 | 10 | 205 | 45 | 44⅝ | 44¾ | -⅛ |
| 9⅝ | 8⅛ | ACM Gvt In x | 0.90 | 9.2 | 8 | 197 | 9¾ | 9⅝ | 9¾ | +⅛ |
| 7⅝ | 6¾ | ACM GvOpp x | 0.66 | 9.4 | | 367 | 7 | 6⅞ | 7 | +⅛ |
| 7¼ | 6½ | ACM Gvt Sp x | 0.75 | 11.3 | | 824 | 6⅝ | 6½ | 6⅝ | |
| 9⅛ | 8¼ | ACM Gvt Sc x | 0.90 | 10.4 | | 599 | 8⅝ | 8½ | 8⅝ | |
| 9½ | 8⅝ | ACM Man x | 0.90 | 9.6 | | 751 | 9⅜ | 9¼ | 9⅜ | +⅛ |
| 31¼ | 17¼ | AcmeCly | 0.52 | 1.7 | 7 | 19 | 30⅝ | 30⅝ | 30⅝ | |
| 9¼ | 6⅛ | Acme Elect | | | 54 | 33 | 6⅝ | 6½ | 6½ | -⅛ |
| 31¾ | 27¾ | Acordia | 0.72 | 2.3 | 16 | 10 | 31⅛ | 31⅛ | 31⅛ | |
| 15⅞ | 12 | Acuson | | | 45 | 183 | 14⅝ | 14½ | 14½ | |
| 19½ | 16⅞ | Adams Expr | 0.48 | 2.6 | 0 | 95 | 18¼ | 18⅛ | 18⅛ | |
| 21¼ | 16⅛ | AdvMic | | | 7 | 2831 | 17½ | 17 | 17⅛ | -⅛ |
| 10¼ | 8½ | Advest Grp | 0.16 | 1.6 | 9 | 169 | 9⅞ | 9¾ | 9⅞ | |
| 28⅛ | 9½ | Advo Inc | 0.10 | 1.1 | 10 | 61 | 9¾ | 9½ | 9½ | |
| 48⅞ | 41⅞ | Aegon | 1.23 | 2.5 | 15 | 62 | 49 | 48½ | 49 | |
| 5⅞ | 3½ | Aeroflex | | | 8 | 346 | 4¾ | 4⅝ | 4¾ | +⅛ |
| 76¾ | 66⅞ | AetnaL | 2.76 | 3.8 | 34 | 9706 | 72½ | 70⅞ | 72¼ | +1¼ |
| 33 | 28¾ | Aflac | 0.40 | 1.3 | 13 | 5333 | 30¾ | 30 | 30¾ | +⅝ |
| 20⅞ | 17½ | AGL Res | 1.08 | 6.0 | 17 | 479 | 18 | 17¾ | 17¾ | -⅛ |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

- A - (continued) [illegible]

- B - [illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

- R - [illegible]

- S - [illegible]

Continued on next page



هكذا من الأصل

صكرا من الأهل



4 pm close April 12

## NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

## NASDAQ NATIONAL MARKET

4 pm close April 12

| Stock | Div. | P/E | Sls 100s | High | Low | Last | Chng |
|---|---|---|---|---|---|---|---|
| ABS Inds | 0.20 | 1 | 686 | 1 1/4 | 1 | 1 1/8 | |
| ACC Corp | 0.12 | 37 | 1482 | 28 1/2 | 28 | 28 1/2 | +3/8 |
| Acclaim E | | | 891099 | 8 | d7 | 7 5/8 | -7/8 |
| Acme Mtls | | 7 | 104 | u19 | 18 1/2 | 18 3/4 | +1/4 |
| Acxiom Cp | | 44 | 592 | 28 1/4 | 27 7/8 | 28 1/8 | +1/8 |
| Adaptech | | 28 | 4615 | 49 1/4 | 47 7/8 | 48 1/8 | -7/8 |
| ADC Tele | | | 3620849 | 37 3/4 | 35 1/4 | 37 | +1 3/4 |
| Addington | | 12 | 574 | 14 1/4 | 13 3/4 | 13 3/4 | -1/2 |
| AdiaADR | 0.16 | 12 | 49 | 28 3/4 | 28 3/8 | 28 5/8 | -1/2 |
| Adobe Sys x | 0.20 | 29 | 8173 | 35 | 32 1/2 | 34 7/8 | +2 1/8 |
| Adv Logic | | 12 | 127 | 7 | 6 3/4 | 6 3/4 | -1/4 |
| Adv Polym | | 20 | 2376 | u9 3/32 | 9 | 9 5/8 | +5/8 |
| AdvTchLab | | | 3916812 | u35 3/4 | 29 3/4 | 35 | +5 |
| Advanta | 0.36 | 16 | 3067 | 52 1/4 | 50 7/8 | 51 3/8 | +5/8 |
| AgnicoEg | 0.10 | 50 | 4 | 18 1/4 | 18 1/4 | 18 1/4 | -1/8 |
| AirExpr x | 0.20 | 16 | 140 | 28 1/4 | 25 1/2 | 26 1/2 | -1/8 |
| Alco ADR | 1.79 | 9 | 141 | 55 7/8 | 55 5/8 | 55 3/4 | |
| AlexBld | 0.88 | 20 | 207 | u25 1/4 | 24 3/4 | 24 7/8 | -1/8 |
| Allen Org | 0.52 | 13 | 7 | 38 1/2 | 38 1/2 | 38 1/2 | +2 1/2 |

| Stock | Div. | P/E | Sls 100s | High |
|---|---|---|---|---|
| Dep Gty | 1.32 | 12 | 122 | 47 1/4 |
| Devcon | 0.20 | 14 | 15 | 9 1/4 |
| DH Tech | | 19 | 19 | 25 |
| Digi Intl | | 13 | 1234 | 27 7/8 |
| Dig Micro | | 10 | 550 | 8 1/2 |
| Dig Sound | | 5 | 244 | 1 3/32 |
| Dig Syst | | 21 | 772 | 16 3/8 |
| Dionex Cp | | 23 | 880 | 35 1/2 |
| Dixie Yrn | 0.20 | 0 | 6 | 4 1/8 |
| DNA Plant | 2.25 | 1 | 522 | 3/32 |
| Dollar Gn | 0.25 | 23 | 63 | 28 1/2 |
| Dorch Htn | 0.88 | 18 | 55 | u13 3/4 |
| DracoEngy | | 14 | 657 | u21 3/4 |
| DressBarn | | 12 | 1047 | 10 5/8 |
| Drey GD | 0.24 | 127 | 25 | 33 1/2 |
| Drug Empo | 0.08 | 17 | 249 | u4 1/4 |
| DS Bancor | 1.09 | 12 | 82 | 31 |
| Durion | 0.52 | 20 | 886 | 26 |
| Dynatech | | 31 | 340 | 23 1/2 |

[illegible]

## AMEX COMPOSITE PRICES

4 pm close April 12

[illegible]

# FT GUIDE TO THE WEEK

## MONDAY 15

### Cocaine high on agenda

The illegal cocaine trade will be top of the agenda at a meeting of 29 foreign ministers from the Rio Group and the European Union in the Bolivian city of Cochabamba (to Apr 16). Other topics include sustainable development, trade, investment and the fight against poverty. Bolivia, along with Peru and Colombia, grows the coca leaf which is processed into cocaine for export. Just a few miles down the road from Cochabamba is the Chapare, Bolivia's coca-growing heartland.

### Partial pull-out in Chechnya

Russia is to start a gradual withdrawal of some troops from rebel Chechnya, under a peace plan announced by the Russian president, Boris Yeltsin. Troops will be withdrawn only from peaceful areas.

### Venezuela to make IMF deal

In spite of campaign promises not to raise the price of the world's cheapest petrol or apply foreign economic recipes, President Rafael Caldera of Venezuela is likely to announce a fivefold increase in fuel prices and a deal with the International Monetary Fund. When an austerity package was imposed in 1989, more than 300 people died in riots.

### Downer in south-east Asia

In his first overseas tour as Australia's foreign minister, Alexander Downer begins a visit to Indonesia, Singapore and Thailand. Mr Downer says the trip "reflects that closer engagement with Asia will be the government's highest foreign policy priority".

### Swedes attack budget deficit

Sweden's minority Social Democratic government sharpens its assault on the state deficit with a finance bill to eliminate the budget deficit by 1998. The measures have been agreed with the opposition Centre Party. They are likely to include cuts in parental benefits and retirees' allowances – a further erosion of Sweden's cherished welfare system.

### S Africa truth commission

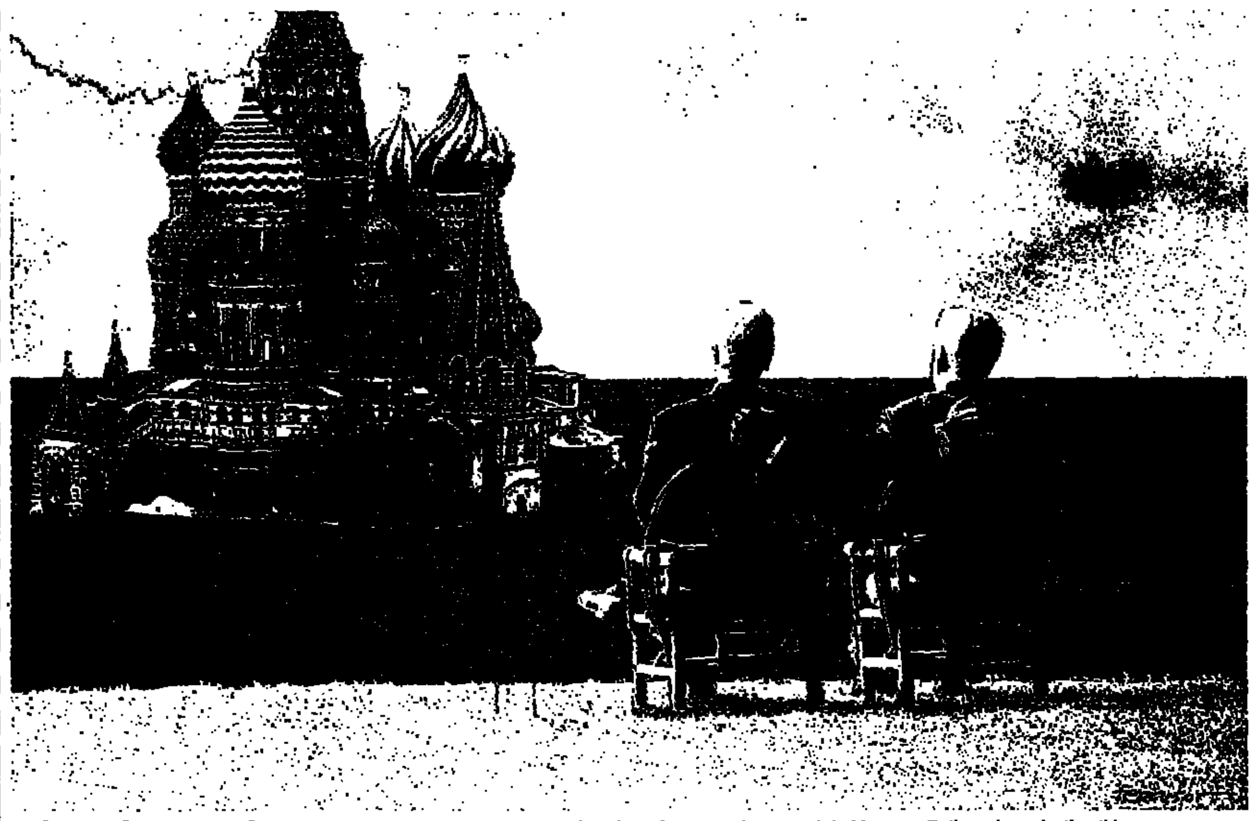
Human rights abuses during South Africa's apartheid era will be reviewed when the Truth and Reconciliation Commission begins hearings. The commission, appointed by President Nelson Mandela and chaired by Archbishop Desmond Tutu, will grant amnesties to those who confess.

### Gymnastics

World championships, San Juan, Puerto Rico (to Apr 21).

### FT Surveys

Investing in Central and Eastern Europe; Switzerland.



On Sunday, US President Bill Clinton meets his Russian counterpart, Boris Yeltsin, for a one-day summit in Moscow. Both seek re-election this year.

### Public holidays

Belarus, Bulgaria, Cyprus, Egypt, Greece, Honduras, Lebanon, Romania, Switzerland, Ukraine, Yugoslavia.

## TUESDAY 16

### Clinton in Japan

The US-Japan security pact will be the main focus of a visit to Tokyo by the US president, Bill Clinton (to Apr 18). Mr Clinton is to talk with Ryutaro Hashimoto, the Japanese prime minister, go to a banquet hosted by Emperor Akihito and Empress Michiko, and address the parliament. The summit between the two countries is the first during Japan's new government. The pact centres on 47,000 US troops, the source of public misgivings since a schoolgirl was raped by three US servicemen. But China's sabre-rattling and North Korea's latest belligerence have driven home the value of the stabilising presence of a military superpower.

### High noon at UBS

Shareholder meetings of the Union Bank of Switzerland are usually gripping, but this year's annual meeting promises to be even more so. Last week's suggestion by CS Holding that the two banks consider merging has added to the passions already aroused over the nomination of Robert Studer, the former chief executive, as the new chairman. Martin Ebner, whose BK Vision investment fund is the bank's largest shareholder, wants Mr Studer out. UBS has rejected the merger.

### Russian election deadline

The deadline falls by which Russia's presidential hopefuls must have registered their candidacy. So far, those who have been successfully registered after the central electoral commission validated their 1m signatures of support are Gennady Zyuganov, the Communist party leader, Boris Yeltsin, the incumbent, Vladimir Zhirinovsky, the ultra-nationalist, and Mikhail Gorbachev, the former Soviet leader. Grigory Yavlinsky, the head of the liberal Yabloko grouping, also seems certain to contend the June 16 poll.

### Creutzfeldt-Jakob court case


A legal test case on the Creutzfeldt-Jakob disease (CJD) begins in London's High Court. Relatives of eight people who died from CJD are suing the Department of Health and the Medical Research Council, claiming it was contracted after the use of growth hormones from human pituitary glands. Although unconnected with the concern that CJD could be caused by BSE in cattle, the case might lead to 1,900 more claims against the government – which on the same day is expected to announce details of its cattle-culling policy.

### A push for eastern Europe

Western business leaders and senior politicians from eastern Europe gather in Geneva to discuss improving the business climate in the region. The conference, sponsored by the United Nations Economic Commission for Europe, coincides with the latter's publication of its economic assessment. This shows several central European countries are experiencing rapid growth after the slump provoked by the crash of communism in 1989. However, for Russia and other former Soviet republics industrial output remains at half 1989 levels.

### Optimism for poor countries

The UN Conference on Trade and Development issues its most optimistic assessment for several years of the economic prospects of the world's poorest countries. The 48 least-developed nations (LDCs), as defined by the UN, are expected to show a third year of positive growth in 1996. Unctad notes that African LDCs have shared in the general improvement but that Asian LDCs are growing twice as fast.

### Public holidays

Cuba, Cyprus, Israel, Romania.

## WEDNESDAY 17

### Nuclear plant in Romania

Romania's first nuclear plant is to be opened by Jean Chretien, the Canadian prime minister. The plant, at Cernavoda on the River Danube, is the only one in the former eastern bloc built with Canadian rather than Soviet technology. The project, part-financed by the Canadian government, was begun during the Ceausescu regime more than a decade ago and has been dogged by delays.

### Equestrianism

Volvo World Cup final, Geneva (to Apr 21).

### FT Survey

Humber Estuary.

### Public holidays

Iraq, Syria.

## THURSDAY 18

### Turkish coalition courts WEF

Turkey's new conservative coalition government meets the international business community for the first time in a two-day meeting in Ankara organised by the Geneva-based World Economic Forum. Mesut Yilmaz, the prime minister, and senior ministers will set out their economic and foreign policies. Privatisation, energy policies and Turkey's troubled relationship with Europe are likely to dominate the agenda.

### Tensions in Hong Kong

The threat of a bumpy ride in Hong Kong's return to China will dominate a meeting between the territory's top civil servant and senior Chinese officials. Anson Chan, Hong Kong's chief secretary, dines with Lu Ping, China's highest official on the territory, amid increased concerns about the transition. Mrs Chan, strongly backed in Hong Kong for a senior position after next year's handover, has spoken out against China's plans to scrap the legislature. Her meeting with Mr Lu is to find common ground on contentious issues, including the need to maintain morale in the civil service.

### Major visits Ukraine

John Major, the UK prime minister, makes his first visit to Kiev, at a time when an independent Ukraine is seen as an increasingly important buffer against a potentially resurgent Moscow.

### Saleroom

A portrait of the artist Georgia O'Keeffe by her lover, the photographer Alfred Stieglitz, is the highlight of an auction of photographs at Sotheby's New York. It was taken in 1922 and is believed to be the only print of this image in private hands. The top estimate is $150,000.

### FT Surveys

Regions of France: Rhone-Alpes and Auvergne. World Watch and Clock Industry.

### Public holidays

Zimbabwe.

## FRIDAY 19

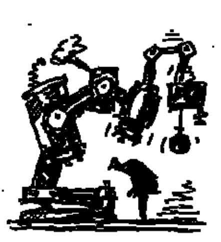
### Trade ministers in Kobe

Trade ministers of the European Union, Japan, US and Canada start a three-day meeting in Kobe, Japan. Their discussions are expected to include the negotiations in the World Trade Organisation on liberalising basic telecommunications and plans for a global agreement to cut tariffs on information technology products.

### G7 leaders in Moscow

Leaders of the G7 industrial nations, and the presidents of Russia and Ukraine, gather in Moscow to discuss nuclear security on the 10th anniversary of the explosion at Ukraine's Chernobyl nuclear plant (to Apr 20). Western leaders are alarmed nuclear weapons in the former Soviet Union might end up with terrorist states. They are also worried about Russia's older nuclear power stations.

### Patent boffins



The 24th International Exhibition of Inventions opens in Geneva (to Apr 28). More than 600 exhibitors from 42 countries will present about 1,000 patented inventions in what has become the largest exhibition of its kind. Last year's prize-winners included a type of animal fodder (Senegal), a flexible joint for flexible pipes (France) and a propellor-less propulsion system for ships (Spain).

### Public holidays

Cuba, Swaziland, Uruguay, Venezuela.

## SATURDAY 20

### Sailing

French Olympic week, Hyères (to Apr 27).

### Horse racing

Scottish Grand National, Ayr racecourse.

## SUNDAY 21

### Italian general election

Voting takes place in Italy's third general election in four years. A close outcome is predicted between the centre-left "Olive Tree" alliance dominated by the Party of the Democratic Left, and the right-wing Freedoms Alliance headed by Silvio Berlusconi, the former premier, and Gianfranco Fini, the head of the rightist National Alliance. Up to one third of the electorate has remained undecided in a lack-lustre campaign and the result could be determined by as few as 40 marginal seats, mainly in the north. The financial markets have shown a preference for a centre-left win, judging them capable of forming a more responsible administration.

### Clinton-Yeltsin summit

The presidents of Russia and the US, Boris Yeltsin and Bill Clinton, hold a one-day summit meeting in Moscow following the nuclear security conference. Topics are likely to include Bosnia, Chechnya, China and the enlargement of Nato. Personal relations between the two leaders are fairly warm – both have been embarrassed by leaked records of a recent conversation in which they tacitly promised to help each other's re-election campaigns this year by playing down "negative" issues.

### Athletics

London marathon.

*Compiled by Simon Strong.*
*Fax: (+44) (0)171 873 3194.*

## ECONOMIC DIARY

### Other economic news

Monday: The annual rate of manufacturers' output price inflation is expected to have slackened in the UK last month as the month-on-month change remains stable. Input price inflation is also expected to decline.

Tuesday: US industrial production is forecast to have fallen in March following February's robust increase. The Italian economy is thought to have shrunk in the fourth quarter, taking the annual rate to 2.5 per cent or below.

Wednesday: The International Monetary Fund publishes its twice-annual World Economic Outlook and the UK Treasury releases the minutes of the March 7 monetary meeting. UK unemployment is expected to have resumed its decline last month after February's surprise increase.

Thursday: Bundesbank council meets in Frankfurt. UK inflation forecast to have fallen a little last month, while Italian producer price inflation should have decelerated in the previous month.

Friday: The US budget deficit is expected to have widened fractionally between February and March. Danish inflation is meanwhile thought to have stabilised last month.

### Statistics to be released this week

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| Mon | Japan | Mar overall wholesale price indx* | -0.1% | 0.0% |
| April 15 | Japan | Mar overall wholesale price indx** | 0.4% | -0.1% |
| | Japan | Mar domestic wh'sale price indx** | - | -1.0% |
| | UK | Mar producer price indx input* | 0.3% | -0.3% |
| | UK | Mar producer price indx input** | 2.7% | 3.0% |
| | UK | Mar producer price indx ouput* | 0.2% | 0.2% |
| | UK | Mar producer price indx ouput** | 3.5% | 3.7% |
| | UK | Ditto ex-food, drink & tobacco** | 3.2% | 3.4% |
| | Spain | Feb producer price indx* | 0.6% | 0.9% |
| | Spain | Feb producer price indx** | 3.1% | 3.7% |
| Tues | US | Mar industrial production | -0.4% | 1.2% |
| April 16 | US | Mar capacity utilisation | 82.4% | 82.9% |
| | Japan | Feb industrial production (rev)† | - | 2.0% |
| | Japan | Feb shipments (rev)† | - | 2.4% |
| | France | Jan current a/c† | FFr6.0bn | FFr1.8bn |
| | UK | Mar British retail consortium surv** | - | 3.6% |
| | UK | Feb construction orders | - | n/a |
| | Italy | 4th qtr gross domestic product** | 2.4% | 3.4% |
| Wed | US | Mar housing starts | 1.45m | 1.49m |
| April 17 | US | Mar building permits | - | 1.39m |
| | Japan | Mar trade balance (customs clrd) | $9.9bn | $13.8bn |
| | UK | Mar unemployment | -7,500 | 6,800 |
| | UK | Feb average earnings | 3.25% | 3.25% |
| | UK | Feb unit wages 3mth** | 3.8% | 4.2% |
| | Canada | Feb manufacturing new orders | 0.5% | 0.4% |

| Day Released | Country | Economic Statistic | Median Forecast | Previous Actual |
|---|---|---|---|---|
| Thur | US | Apr Philadelphia Fed Indx | - | -0.1 |
| April 18 | US | M2 w/e April 8 | $0.5bn | $3.9bn |
| | US | Initial claims w/e April 13 | 360,000 | - |
| | Japan | Mar money supply (M2+cash dep)** | 2.8% | 2.8% |
| | Japan | Mar broad liquidity** | - | 3.7% |
| | Japan | Apr wh'sale price indx (1st 10 days) | - | n/a |
| | UK | Mar motor vehicle production | - | n/a |
| | UK | Mar retail price indx* | 0.3% | 0.5% |
| | UK | Mar retail price indx** | 2.6% | 2.7% |
| | UK | Mar RPI ex-mortgage int payments | 2.8% | 2.9% |
| | UK | Mar public sector borrowing req | £10.0bn | £2.9bn |
| | Italy | Feb producer price indx** | 5.1% | 5.9% |
| | Italy | Feb wholesale price indx** | 8.4% | 9.4% |
| Fri | US | Mar Treasury budget | -$46.0bn | -$44.3bn |
| April 19 | Japan | 2nd qtr Bank Jpn qtly econ report | - | n/a |
| During the week... | | | | |
| | Japan | Mar Tokyo dept store sales** | - | 2.8% |
| | Germany | Mar wholesale price indx* | 0.3% | 0.4% |
| | Germany | Mar Icon consumer climate | - | 87.0 |
| | Germany | Mar Ifo business climate, West | - | 91.8 |
| | Germany | Mar producer price indx, West* | 0.2% | 0.0% |
| | Germany | Mar producer price indx, West** | -0.2% | -0.3% |
| | Germany | Mar PPI, pan-Germany* | 0.2% | 0.1% |
| | Germany | Mar PPI, pan-Germany** | 0.0% | -0.2% |

*month on month, **year on year, †seasonally adjusted. *Statistics, courtesy MMS International.*



## MONDAY PRIZE CROSSWORD

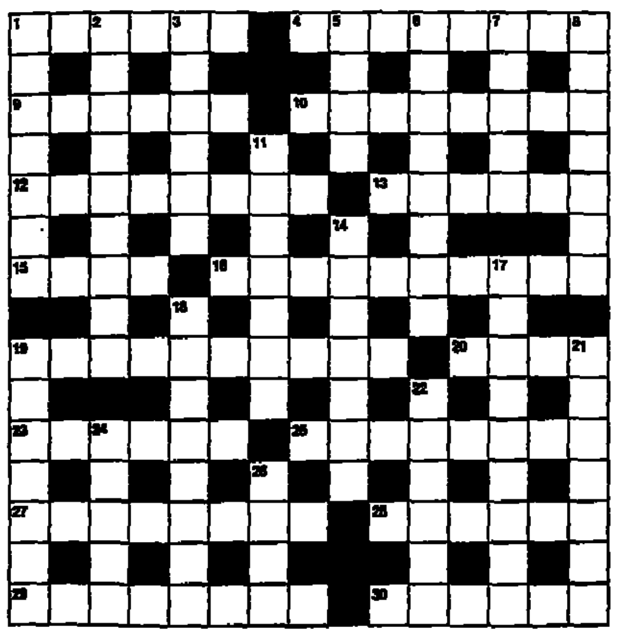
No.9,043 Set by DANTE

**ACROSS**

1 Yet it may mean miners work harder (6)
4 Goes or returns (8)
9 Moor in Arabian chorus (6)
10 Fairly good around the home (8)
12 Allowed income? (8)
13 New act with hat and stick (6)
15 Idle doodle gives a false impression (4)
16 Rising up – or just turning over? (10)
19 Forever aimless (7,3)
20 Drink, knock it back as a starter (4)
23 It's frivolous having a tax about it (6)
25 Dispatched about ten cents as a deposit (8)
27 Its model form may be recalled (3,5)
28 Scholar right to give approval to composer (6)
29 Giving a signal when slowing down (8)
30 Discovers money makes money (6)

**DOWN**

1 It's designed and built as an ocean container (3,4)
2 Upper-class doctor accommodated in modern flat (9)
3 Like a cat's cradle, hard to explain (6)
5 It can be raised for getting upset about nothing (4)
6 Old joke cracked at Christmas (8)
7 Non-striking bonus (5)
8 Take action to stop weakening of the spirit (3,4)
11 It's inferior to the bean stew (7)
14 Set off on horseback? (7)
17 Official reformer of prison, etc (9)
18 Heather admits blasphemy causes disgust (8)
19 Rich source no longer available (4,3)
21 Is taken out to see groups of new recruits (7)
22 5 to 4 on the winner that's lively (6)
24 The leading spirit in Russia (5)
26 Aim at the middle point (4)



A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday April 26, marked Monday Crossword 9,043 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday April 29. Please allow 28 days for delivery of prizes.

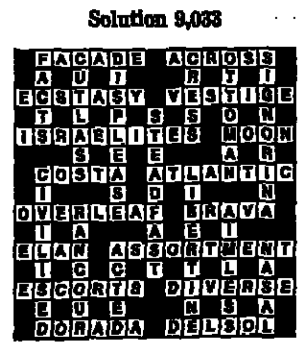
Name.................................

Address.................................

**Winners 9,033**

T.F. Brady, Brussels
R.L. Hellier, Reading, Berks
Sally Wilson, Boulogne
C.J. Bailey, Coventry
James King, Sunderland
S. Ponsonby, Hitchin, Herts

**Solution 9,033**



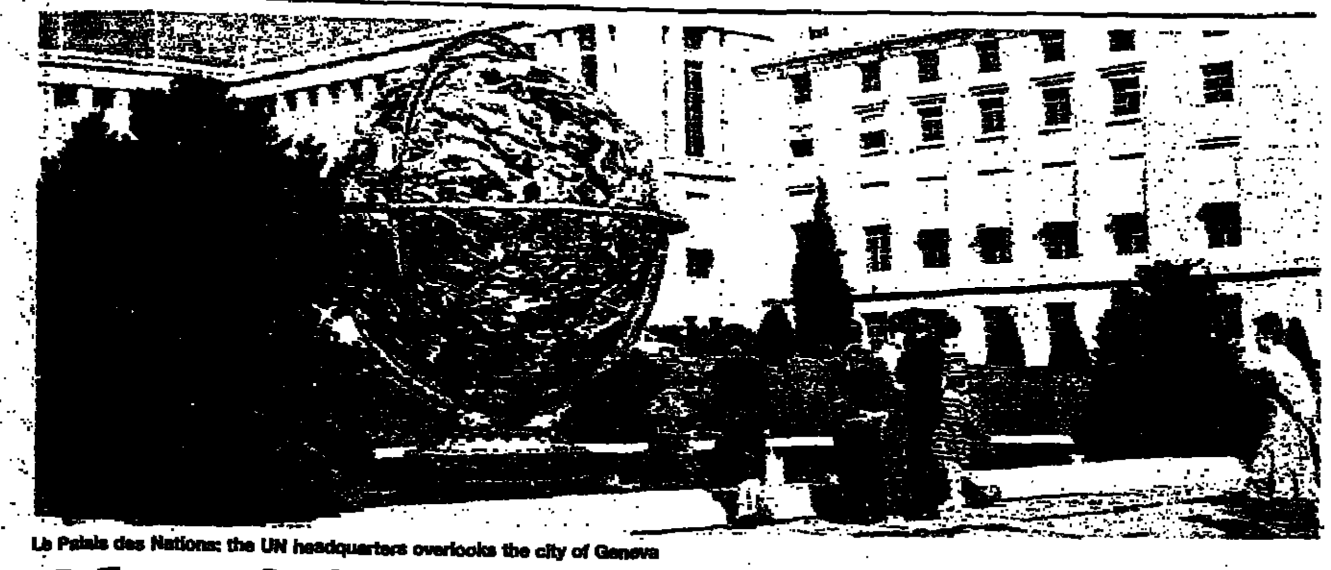
JOTTER PAD

هكذا من الأصل

مكرر من الاصل



# SWITZERLAND



Le Palais des Nations: the UN headquarters overlooks the city of Geneva

The buildings of the parliament in Bern, the capital of the Swiss confederation

Tony Andrews

## Aloof from Europe, the clouds may be gathering

**Despite domestic soul-searching and political inertia, this land remains an island of peace, economic prosperity and orderliness in a frenetic world, writes Ian Rodger**

Switzerland has had a good run since the people's momentous decision in December, 1992 to remain aloof from the process of European integration.

The economy has been resilient, if not buoyant, and the Swiss franc has reasserted itself as the world's strongest currency. The unemployment rate has crept up, although it remains among the lowest in Europe, and inflation has been all but wiped out.

But there is a growing feeling in the land that the past four years have been something of a magic holiday, and that the holiday may be about to end.

Relations with the European Union have become severely strained, and the country's vital industrial base, assaulted by an excessively strong currency and various irritating local restrictions, is looking insecure.

"The way we are going, we will end up a Monaco in the Alps," a leading Zurich businessman says, indicating that only the banking and tourism industries can thrive in the current circumstances.

Internally, the Swiss are being tormented by other attacks on their stable and comfortable lifestyle, including plans to professionalise the national army and to reduce in size the generous health and welfare system. The government has even introduced a project to revise the 148-year-old constitution.

By far the most unsettling problem at the moment is Switzerland's relations with the European Union. When the Swiss people voted not to join the European Economic Area (EEA), the government said it would undertake bilateral negotiations with the EU to resolve a number of pressing issues.

Chief among them were transport questions. As an EEA member, Switzerland would have been a full participant in Europe's "open skies" policy, which comes into effect next year. Outside the EEA, Swiss airlines will face severe disadvantages competing against other European airlines.

The Swiss government hoped to win access to the open skies by building two high-speed rail tunnels through the Alps to improve north-south land transit links. But Brussels has made clear in recent weeks that it is no longer interested in the Alp Transit project.

It wants Switzerland to remove its 28-tonne weight limit and lift the night and weekend prohibitions on transit lorries. The hard message last month from Ms Annemarie Jorritsma, the Dutch transport minister, was: If Swissair aircraft are going to pollute EU airports, then EU lorries have to be allowed to pollute the Gotthard pass.

Similarly, the Swiss hoped in vain that Brussels would not be too firm in its demands to allow EU nationals freedom to work and settle in Switzerland. Immigration is a hypersensitive issue in a country where nearly a fifth of the residents are non-Swiss, but the EU shows no sign of giving way.

The real problem in these rows is one of public perception in Switzerland. The average Swiss believes Brussels is demanding too much of Switzerland and so, egged on by some xenophobic local politicians, is inclined to balk at any concessions offered by the government's negotiators.

The reality is that Switzerland is the demandeur – of access to a variety of EU institutions and markets – and the EU has merely put up a couple of counter demands to achieve some reciprocity. No one in Brussels will lose sleep – and many will be relieved – if the whole process collapses.

Indeed, many European officials find it odd that Switzerland, which formally applied to join the EU four years ago, is engaging in a niggardly exercise aimed at achieving as much special dispensation as possible from the basic requirements of membership. This at a time when many eager central and eastern European countries would accept almost any condition just to be offered membership.

Meanwhile, the unexpected downturn taken by the Swiss economy in recent months has set off a fresh round of soul-searching about the country's basic economic and political strategies.

Switzerland's strength has long come from the stability of its institutions and, in particular, a consistently rigorous monetary policy. The country's large manufacturing industries have grown ever more competitive in recent years thanks to their disciplined workforces, the low cost of capital and the constant pressure to improve productivity imposed by a hard currency.

These same factors plus a long history of unhindered capital movement have also made Switzerland the world's premier deposit haven for the world's wealthy individuals.

However, by remaining outside the EEA, the Swiss appear to have threatened this balance. Especially in the past year, the fact that the Swiss franc is the only currency in Europe that will definitely not be involved in European monetary union has added substantially to its cachet.

Investment funds have been pouring in from individuals in Germany and other countries seeking a refuge from the euro, in the process turning the franc into a speculative currency.

Another consequence of staying outside the EEA was that the country, which is riddled with restrictive trade practices, was not obliged to align its trade law with the EU.

The government promised it would liberalise on its own, but progress has been slow and half-hearted. For example, a tougher cartel law will finally come into effect later this year, but it still retains the quaint Swiss notion that price fixing agreements are not necessarily bad.

In December, a group of Swiss business leaders published a book, *Mut zum Aufbruch* (The courage to make a fresh start) setting out an economic reform agenda, but it was quickly discredited by social democrats who denounced its call to shrink the national welfare system.

Similarly, a proposal for a comprehensive overhaul of the constitution is unlikely to get very far. Its most important proposals are to raise the level of qualifying conditions for referendum petitions.

At the moment, only 50,000 signatures, less than 1 per cent of the population, are needed to force a referendum on any proposed law, and 100,000 can, and often do, force plebiscites on any issue, from vivisection to the elimination of the army.

On many issues, the approval of a majority of the 23 cantons, as well as a popular majority, is required, which means that the many small rural cantons in central Switzerland can combine forces to overturn the national will.

But reform is unlikely to succeed, if only because it would probably be rejected in a referendum.

For all its problems and inertia, Switzerland remains a tidy island of peace, prosperity and orderliness in an increasingly frenetic world.

Its tough and resourceful people have shown repeatedly in the past that they will face their problems realistically when it becomes necessary to do so.

At the moment, there is still no obvious need. Most Swiss have never had it so good.

### KEY FACTS

Area ........ 41,286 sq km
Population ........ 7.2 million (1995 estimate)
Head of state ........ President Jean-Pascal Delamuraz
Currency ........ Swiss Franc (SFr)
Average exchange rate ........ 1995 $1=SFr1.1825; 29/3/96 $1=SFr1.1904

**ECONOMY**

| | 1995 | 1996* |
|---|---|---|
| Total GDP ($bn) | 306.1 | n.a. |
| Real GDP growth (%) | 1.1 | 1.6 |
| GDP per capita ($) | 42,518 | n.a. |
| Components of GDP (1994, %) | | |
| Private consumption | 58.8 | |
| Total investment | 22.2 | |
| Government consumption | 14.3 | n.a. |
| Exports | 36.2 | |
| Imports | -31.5 | |
| Consumer prices (% change) | 1.8 | 1.4 |
| Ind. production (% change) | 4.3 | 5.2 |
| Unemployment (% of lab force) | 4.2 | 4.2 |
| Reserves minus gold ($bn) | 36.4 | 32.0 |
| 3-month money mkt rate (%) | 2.95 | 1.80 |
| FT/S&P index (% change over year) | +25.6 | +9.7 |
| Gross public debt as % of GDP | 49.6 | n.a. |
| Current account balance ($bn) | 20.2 | 20.4 |
| Exports ($bn) | 78.0 | n.a. |
| Imports ($bn) | 77.0 | n.a. |
| Trade balance ($bn) | 1.0 | n.a. |
| Main trading partners (1994, % by value) | Exports | Imports |
| EU | 62.1 | 79.4 |
| of which: | | |
| Germany | 23.4 | 32.8 |
| France | 9.2 | 11.0 |
| Italy | 7.5 | 9.9 |
| UK | 6.6 | 6.8 |
| USA | 9.1 | 6.2 |
| Japan | 3.9 | 3.4 |
| EFTA | 0.5 | 0.3 |

* = Latest figures - EIU estimates for 1996 except reserves (jan) and FT/S&P index (% change from 31/12/95 to 31/3/96). *Source: Economist Intelligence Unit, Datastream, IMF.*

■ **Politics:** by Ian Rodger

# A rare paralysis grips

## The new government and parliament have been showing little initiative

Paralysis grips Swiss politics these days to an extent rarely seen. The country faces vital issues, such as its relations with its European neighbours, welfare reform and even constitutional reform, yet opinions are so evenly divided – and so passionately held on all sides – on how to proceed that the leading politicians have sunk into lethargy.

This has come as a surprise to many observers who were expecting some new signs of purpose and direction in the federal government following last autumn's general elections and cabinet shuffle.

The elections last October produced a clear polarisation within the four-party coalition that has ruled the country since 1959, with the left wing Social Democratic Party and the right wing People's Party making advances at the expense of the two centrist parties and marginal parties.

The swings indicated that leadership within the coalition might shift from the moderate Christian Democrats and Radicals to the Social Democrats. On the one hand, the Social Democrats displaced the Radicals as the largest single party. For its part, the People's Party won almost as many seats as the Christian Democrats.

And there was no doubt that the Social Democrats and the People's Party improved their result because of the unequivocal positions they took on the two leading issues.

The People's Party, inspired by the charismatic industrialist, Mr Christoph Blocher, stood squarely against Switzerland joining the European Union, against liberalised distribution of hard drugs and for substantial spending cuts to balance the federal budget. The Social Democrats made clear they would fight equally hard for the preservation of social entitlements and for Switzerland participating in European integration.

The cabinet shuffle also seemed to promise a more decisive government. Upon the resignation of Mr Otto Stich, Mr Kaspar Villiger, who as defence minister had overhauled the sacred Swiss army, took over the equally tricky problem of restoring order to the government's finances.

Mr Adolf Ogi, the former transport minister, moved to defence and the Social Democrats selected Mr Moritz Leuenberger, an admired local politician in Zurich, to replace Mr Stich and he took over the transport portfolio.

So far, there has been very little evidence of initiative from the new government and parliament. The main reason appears to be the ever-present threat of the referendum. Under Swiss law, many laws must be approved by the people in a referendum and the rest can be contested if a petition wins enough signatures.

This means that politicians are reluctant to initiate or support any action that is likely to to be defeated in a plebiscite. In the past few years, the people have turned down government proposals to join the United Nations, to join the European Economic Area, to supply peacekeeping troops to the United Nations and to ease restrictions on property ownership by foreigners.

Recent opinion polls indicate that public opinion is still evenly divided on issues such as membership in the EU and easing restrictions on residence permits for foreigners. And it strongly opposes the EU's demands to allow more big lorries to drive through the Alps.

Moreover, Mr Blocher has made clear that he will call for referendums if the government makes what he considers too many concessions on European issues. On transit issues, Mr Blocher, who also heads a large speciality chemicals company, is more flexible. He said last month that he was open to allowing 40-tonne trucks more freedom to operate in most parts of Switzerland although remained opposed to their use in the alpine passes.

Progress is also slow in reducing the federal budget deficit and the country's rapidly rising public debt. The budget for the current year foresees a deficit of SFr6.3bn, down only slightly from SFr6.9bn last year, and Mr Villiger has warned that the return to a balanced budget could take some years.

The biggest battles, as in many other European countries, will be over cutting health and welfare spending, which accounts for more than a quarter of all spending.

■ **Relations with the EU:** by Frances Williams

# Looking for the right way in

## Talks on the tricky areas of movement of people and transport have been proposed

More than three years after the fateful referendum in December 1992 that narrowly rejected Swiss membership of the European Economic Area, Switzerland remains confused and disunited in its relations with Europe.

The government's avowed short-term priority is to conclude bilateral negotiations with the European Union, intended to claw back some of the economic advantages lost by being outside the 18-member EEA trading bloc. But these talks, which did not begin until December 1994, are floundering.

Meanwhile, the pro-European camp is in disarray. Should it try again to interest the electorate in the EEA, a sort of half-way house to EU membership? And if so, should Switzerland withdraw its application to join the EU itself, lodged in spring 1992 and now on ice?

According to this argument, which is corroborated by recent opinion surveys, voters would be more likely to approve the EEA if it were not seen as a stepping-stone to EU entry. "We see no reason to withdraw our application," insists Mr Flavio Cotti, Switzerland's foreign minister, who sees it as a useful backdrop for the bilateral talks. Yet others, including some in Brussels, doubt whether it makes sense for the government to posit EU membership as an ultimate goal when it is not being actively pursued. Mr Adolf Ogi, defence minister, said recently that there was no prospect even of opening negotiations on EU entry until after the year 2000.

Though support for EU membership has increased since 1992, with one in two Swiss now in favour according to some polls, this reflects overwhelming backing from French-speaking areas. German speakers are less enthusiastic. Since the anti-Europeans are concentrated in the smaller rural cantons, they have a disproportionate say in the matter. Any referendum on Europe must win over a majority both of the Swiss people and of its 23 cantons.

Voting results since the EEA rejection do not suggest a crumbling in support for those who want to keep Switzerland free from foreign meddling. The government is, therefore, taking seriously the menace of a referendum by Mr Christoph Blocher, the forceful industrialist who is Switzerland's most prominent Euro-sceptic, if it makes too many concessions in the bilateral talks with Brussels.

This has made Bern reluctant to offer a deal on free entry of EU nationals and on road transport that could unblock the stalled negotiations. At the same time, if no agreement is reached by the summer, Brussels may be too preoccupied by the EU's intergovernmental conference (IGC) on the future of the Union to pay Switzerland much attention.

Earlier this month the Swiss government won the support of the coalition parties for a more flexible negotiating mandate – though this still stops well short of what the EU is demanding. Breaking a long-standing taboo in domestic politics, the federal council now says it is prepared to negotiate an end to the lorry 28-tonne weight limit progressively from 2001, provided lorry taxes are raised commensurately.

From 2005, when Switzerland's bilateral transport accord with the EU expires, the Swiss would comply with EU transport rules and taxation. However, under a 1994 referendum decision, all freight traffic across the Alps will have to go by rail or face penal road taxes. Brussels still hopes it may yet prod the Swiss into being more forthcoming, holding out the carrot of concessions it is offering in the air transport sector which would allow Swissair to take part in the EU's liberalised aviation market.

Raising the lorry weight limit would not necessarily be unpopular at home. One recent opinion poll indicated that 56 per cent of Swiss would accept EU 40-tonne trucks – provided the lorry taxes went on financing the new rail tunnels under the Alps Switzerland is pledged to build under its transport pact with the EU.

Bern is treading more cautiously on the free circulation of people. Brussels wants the Swiss to eliminate work permit quotas for EU citizens within three years, though it is prepared to concede a safeguard clause allowing controls to be reimposed if there is an unexpectedly large influx of immigrants.

The Swiss government says it is prepared over the next few years to make it easier for EU nationals to work in Switzerland, followed within five years by talks on the possible abolition of work permit quotas and freedom of movement for EU citizens.

However, Mr Cotti, the foreign minister, made clear the eventual result of these talks would not necessarily be free circulation of people along EU lines.

This is despite the fact that all four coalition parties, employers and unions say they are in favour of allowing EU nationals to live and work in Switzerland without restriction. So are a big majority of the Swiss people, though not necessarily straightaway.

The Swiss government thus faces an acute dilemma. Lack of boldness could cause the bilateral talks to fail, and betray public opinion. But so could too much boldness, if the results of the talks were later rejected in a referendum where xenophobic sentiments might once again hold sway.

That in turn could affect the outcome of two other referendums relating to Europe to be held at around the same time, possibly in spring 1998 – one relating to a pro-European bid to restart EEA talks, the other an anti-European demand that any negotiations on EU entry must get prior approval from the voters.

Another victory or three for the Eurosceptics, ministers fear, would scupper any hope of closer European integration for the foreseeable future.

■ **Economy:** by Frances Williams

# A recession by any other name

## What officials refer to as a 'pause' looks suspiciously like an economic slowdown

"Switzerland is in recession but won't admit it," ran a recent newspaper headline following news that Swiss gross domestic product in the last three months of 1995 had fallen for the third quarter in a row. Swiss officials refer to the slowdown as a "pause" before economic activity picks up again later this year.

Unfortunately, this "pause" comes after barely 18 months of feeble recovery from three years of stagnation. The real level of GDP in the fourth quarter of 1995 was no higher than five years earlier. Unemployment is below its peak but has recently begun to rise again and, at 4.6 per cent in February, remains at unprecedented post-war levels.

"All the indications are that 1996 will be worse than 1995," says Mr Jan-Willem Acket, economist at Swiss Bank Corporation. Last year the economy grew by just 0.7 per cent, after 1.2 per cent in 1994. Like some other forecasters, SBC is predicting zero average growth this year followed by slow expansion in 1997 with GDP rising by 1.8 per cent.

Even this depends on stronger activity elsewhere in Europe and a halt to the rise in the Swiss franc which last year soared to record levels against all the chief trading currencies.

The rise in the value of the franc has played a big part in dampening Swiss economic prospects, hitting important export sectors such as the machinery industry and tourism.

Even more important, according to economists at Union Bank of Switzerland, has been the economic slowdown in western Europe, particularly Germany which alone takes a quarter of Swiss merchandise exports. With many exporters slicing margins to retain market share, the performance of exports has been surprisingly resilient so far – up 2.8 per cent last year in real terms, compared with 3.3 per cent in 1994.

Switzerland ran a trade surplus in 1995 for the third year running, contributing to a hefty SFr23.5bn balance of payments surplus. But manufacturing orders from abroad slipped at the end of last year, presaging a slowdown in export growth in 1996.

Meanwhile, the domestic climate has been exceptionally morose. Household spending, which accounts for 60 per cent of GDP, has fallen since last summer, depressed by declining real incomes and fears of unemployment. Public spending is also being held on a tight leash as the government aims to balance the federal budget by 2001. The deficit last year was a below-budget SFr3.3bn – small by international standards at about 1 per cent of GDP but large for a country that has traditionally balanced its accounts. As for investment, the construction sector continues to languish following the collapse of the property bubble at the beginning of the decade. And after two years of heavy spending on replacement and rationalisation programmes, Swiss industry is planning to cut investment in plant and equipment in 1996.

As the devastation caused by the strong franc has mounted the Swiss National Bank, the country's central bank, has come under increasingly bitter attack from some industrialists and trade union leaders for running overtight money policies. But Mr Markus Lusser, the retiring SNB president, reiterates that the bank's primary commitment is to keeping inflation down. "We shall never repeat enough that our main role is to guarantee price stability in Switzerland ... We are therefore not disposed to put price stability at risk with an excessively expansionary monetary policy," he said recently. Nevertheless, he too has tried to influence market opinion by stating that the franc is overvalued and that a correction is inevitable.

The SNB cut its discount rate four times last year to 1.5 per cent, the lowest level since 1979. Its 1996 money supply target is accommodating, if not expansive.

Mr Lusser claims that the combination of low interest rates and low inflation provides the basis for recovery, and he points out that there has been a pick-up in the demand for money in the first two months of 1996. The consumer price index in February was only 0.8 per cent above its level a year earlier, suggesting that Switzerland is experiencing virtual price stability.

The introduction of VAT last year turned out to have a lesser impact on inflation than had been feared, adding just over 1 per cent to the consumer price index compared with the 1.7-1.8 per cent that had been predicted.

Most forecasters expect inflation to average about 1 per cent this year, rising to 1.5-2 per cent in 1997 on the assumption of a weaker franc and rising economic activity.

■ **Interview:** President Jean-Pierre Delamuraz

# ‘A nation based on will’

## The president of the Swiss confederation discusses issues - with Ian Rodger

**The Swiss economy has stagnated in the past few months, because of the Swiss franc's strength. But the banking sector continues to thrive. Do you foresee severe conflict between the banking and manufacturing industries over economic policy?**

Only rarely is this conflict the object of a quarrel on a political level. There is a consensus that, with regard to monetary policy, which is the focal point of the conflict, we are doing fairly well.

It is true that we are passing through a period of very sluggish economic growth which must be attributed mainly to the strength of our currency, a strength which has its foundation in an excessive influx of security-seeking foreign funds. Thus, it is the security that we offer to financial markets which is the cause of slow growth in manufacturing.

So the question is; should we jeopardise our well known stability and predictability for the sake of a short-term alleviation? We all know too well how quickly the capital markets react. In this country, we know that industrial companies will in any case sooner or later have to adapt to market demands. We believe that the answers are to be found in the entrepreneurial spirit, innovation and better training and education. But it is also true that at times we find it unfair: the better we become the higher our currency soars. I must admit that often I feel a sting of uncertainty when a company quits our country to go and relocate elsewhere. Did they really explore and develop all the possibilities for innovation? It is very easy these days for businesses to move out and use the same technology elsewhere.

**Since the Swiss people in December 1992 refused to join the EEA, the government has been committed to liberalising the economy. To date, fairly little has been achieved. Why?**

The opposite is true. In the autumn of 1995, parliament adopted three revitalising measures which are due to come into force in mid-1997. They are the revised cartel law and new laws on the internal market and on technical barriers to trade. A new law on specialised schools was also adopted. But it is obvious we have to continue. Revitalisation has become a never-ending task for political and business leaders. The second round of measures that the cabinet wishes to undertake includes reforms to agricultural policy, posts and telecommunications, railways and electricity supply.

**The bilateral negotiations with the EU appear to be in serious difficulty.**

The best access possible to the European market is an economic necessity for Switzerland. The EU is our most important trade partner. That is why the cabinet undertook sectorial bilateral negotiations with the EU. They are difficult and arduous, as the cabinet always said they would be.

However, we hope to finish them this year and reach results that are acceptable to both sides. In three areas – road traffic, air traffic and the movement of people – the positions are still far apart.

**In 1991, the Swiss government undertook to build two basis tunnels through the Alps. What are the government's current intentions about this project?**

Due to the difficult state of the federal government's finances and the number of very large projects, the Alp Transit project was again the subject of discussions last summer. A working group was formed and published a report in August containing two suggestions concerning curtailment. One variant foresees the immediate construction of a double-track tunnel through the Gotthard massif and only a single track tunnel through the Lötschberg. The other is based on two two-track tunnels but the Lötschberg would be built only after completion of the Gotthard. The cabinet's decision is expected in April.

**How soon do you believe it would be sensible to hold another referendum on Switzerland's relations with the EU? Do you believe the country should try again to join the EEA or pursue its existing application to join the EU?**

For the moment, the cabinet is concentrating on the bilateral negotiations. After they are completed, we will proceed with a detailed analysis of the current state of the country's integration in Europe.

In particular, we will answer the question of whether Switzerland should take a multilateral initiative and, if so, which one. The EEA or the EU? The cabinet's strategic goal is still EU membership. But this goal can only be realised if the external and internal conditions are fulfilled. Switzerland is an integral part of Europe, culturally, socially and economically. Switzerland must therefore open itself to its European neighbours. But the cabinet only manages its integration policy *with* the Swiss people, never against them.

**There has been renewed suspicion in recent months about Switzerland's commitment to combating money laundering. What prospect is there of closing the remaining loopholes in existing legislation and regulations in the near future?**

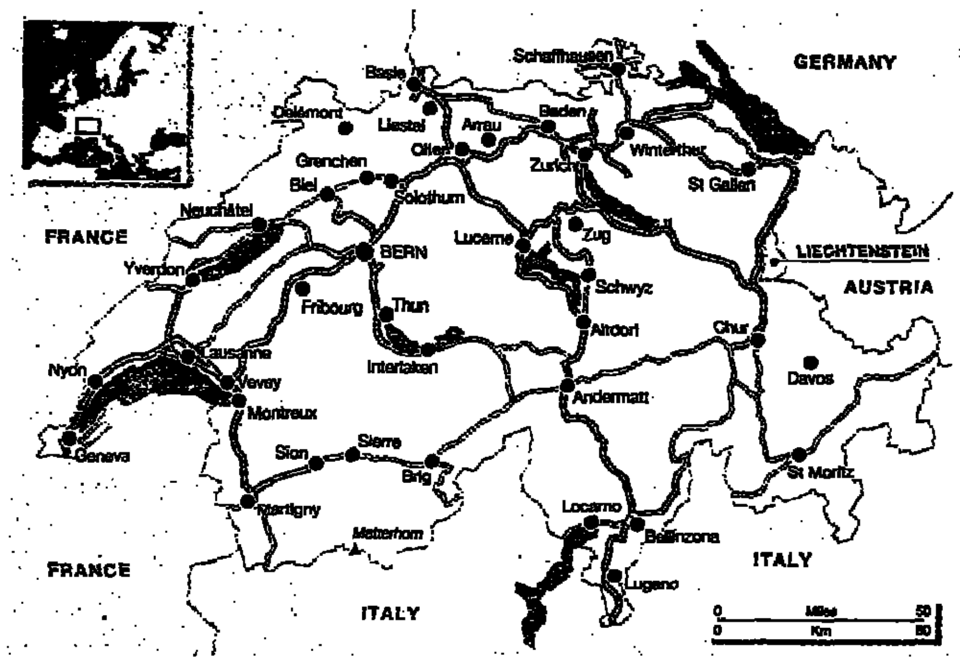
There is no reason to doubt the commitment of Switzerland to combating money laundering. In 1990, Switzerland was one of the first countries to put in place efficient criminal measures against money laundering and we reinforced these instruments last year by outlawing membership of a criminal organisation.

Nevertheless, there are still loopholes to close. I think in particular of the non-bank financial institutions (which are not covered by regulations applying to banks). We are preparing a new federal law. The most important and most delicate question is that of introducing an obligation on bankers to denounce suspected clients to the authorities. At the moment, Swiss law only gives them a right to denounce.

**Some people think that European integration is not as big a problem as Swiss integration. Your predecessor, Mr Kasper Villiger, worried that French and German Swiss do not communicate much with each other any more.**

I agree entirely with what my colleague said about the country's cohesion. It is true that we must strive to improve and reinforce our national cohesion. Without wishing to exaggerate the situation, I think each linguistic group has to rediscover its interest in the other groups. We have to listen to each other more, and respect each other.

Switzerland is not a natural nation but one based on will. I remain convinced that that will to live together still exists. But we have to nurture it.




■ **Finance:** by Ian Rodger

# The faster pace of change

## The big Swiss banks have been trying to build up positions in markets abroad

The Swiss – and Swiss banks in particular – pride themselves on their stability, but the pace of change in the country's financial sector continues to accelerate. Last week's surprise revelation that the country's two largest financial institutions, CS Holding and Union Bank of Switzerland, had had exploratory merger discussions only adds to a rush of events in the past year.

Few analysts expect such a mega-merger, which would create one of the world's largest banks, to occur, but the fact that it was discussed shows that the Swiss realise that much more structural change is needed to maintain their international competitiveness. The past year has seen the beginnings of these changes. For example, the traditional alliances between the big three banks and the big Swiss insurance companies have been cancelled and new pacts formed.

Meanwhile, some banks have substantially enhanced their international presence, the most spectacular case being Swiss Bank Corporation's acquisition of the UK investment bank S.G.Warburg. And the consolidation of the banking sector continues apace, with cantonal banks now joining the regional savings banks in giving up the struggle. Some bankers talk openly about the possibility of one of the big three disappearing within the next decade. The financial sector has also had its setbacks in the past year, the most important being the unexpected flagging of the domestic economic recovery, forcing a costly reassessment of many loans.

The banks were embarrassed by a series of delays in implementing the long gestating national electronic stock exchange. After the latest failed test run in January, the directors have wisely refrained from setting any new start-up date. They still seem confident that it will eventually work, and if it does, it will be a world-beater, providing same day clearing and settlement as well as the usual deal-making.

Attacks from the international Jewish community over the handling of accounts left by victims of the holocaust have hurt the banks. They have belatedly set up an office to deal with inquiries but are having difficulty convincing people that the amounts of money involved are relatively modest. Similarly, Mrs Carla del Ponte, the federal prosecutor, appears to have the upper hand in her desire to close the few remaining loopholes in the country's legal framework to fight money laundering. To the discomfort of many bankers, she is keen to impose on them an obligation to denounce any suspicious clients. At present, banks can simply tell such clients to go away.

For all the activity, the big universal and private banks have more than maintained their awesome financial strength. The big three, CS Holding, Union Bank of Switzerland and SBC all reported improved capital ratios at the end of 1995. Surprisingly, SBC emerged the strongest with a risk-weighted BIS ratio of 12.2 per cent and 9 per cent tier one core capital. UBS's respective figures were 11.8 per cent and 9.7 per cent, and CS's 11.4 per cent and 8 per cent.

On the business front, however, their fortunes were mixed. In general, lending activity was depressed as the Swiss economy weakened, and the continuing slump in the property and construction sectors forced the banks to make substantially higher provisions for non-performing and under-covered loans. On the other hand, profits from securities and foreign exchange trading soared, thanks to buoyant stock markets and volatile exchange markets. Commission income was also healthy, in part due to the continuing large inflows of funds from investors in neighbouring European countries worried about the impending introduction of the euro.

Strategically, the big banks have been active both at home and abroad. UBS launched itself in September into the promising bancassurance field by concluding a far-reaching alliance with Swiss Life, the leading Swiss life insurance group. Under the deal, Swiss Life, a mutual, will convert itself to a joint stock company and UBS will buy a 25 per cent stake for SFr1.16bn. Swiss Life will then take a 50 per cent stake in UBS Life, a fledgling UBS bancassurance subsidiary.

The surprising thing about the deal was that UBS chose to work with Swiss Life rather than with Winterthur Insurance, a company with which it had long had close relationships, including mutual board representation. Mr Peter Spälti, the Winterthur chairman, quickly resigned from the UBS board and, within weeks had concluded a bancassurance deal with CS Holding.

> The Winterthur chairman resigned swiftly from UBS' board

This reshuffling reflects a much broader evolution in the formerly cozy Swiss financial world in recent years. One has only to look at the profit figures of the Swiss banks in the late 1980s to recognise that the three agreed in advance on the figures they would publish so that no one would lose face. Today, they are much more professional and compete vigorously not just for business but also for share ratings and the approval of international investors.

For at least a decade, the big Swiss banks have been aware of the limited potential for growth at home, and so have been trying to build up their positions in international markets. CS had a head start through its Credit Suisse First Boston joint venture, a London eurobond house established in the 1970s, and CS has consolidated that position by taking control of First Boston in the late 1980s, thereby giving it a strong position in investment banking in New York as well as London. UBS acquired a solid base in London through its 1984 purchase of brokers Phillips and Drew, but is still struggling to become a power in the US. After much consideration, it finally decided last year to proceed by internal development rather than by acquisition.

By contrast, SBC has created a strong international division through three big acquisitions in the past four years; the Chicago derivatives house O'Connor in 1992, the Brinson fund management group in 1994 and S.G.Warburg, now SBC Warburg, last year.

Nevertheless, there remains a widespread view that the Swiss financial market is too small a base to support three universal banks. Two years ago, CS toyed with the idea of buying a retail bank in Austria to broaden its funding base, but after the long and costly struggle it has had to integrate its 1992 acquisition of Swiss Volksbank, the idea of a retail adventure abroad appears to have palled. The others insist they will restrict their retail activities to Switzerland.

■ **Manufacturing:** by Ian Rodger

# Feeling the pinch

## The industry faces bureaucratic headaches and discrimination in its sales to the EEA

It is easy to forget that manufacturing plays a larger role in the Swiss economy than finance. It employs some 750,000 people, a quarter of the total workforce, compared with only some 90,000 in banking. It contributes about 30 per cent of GNP, significantly greater than the 10 per cent contribution of banking and insurance. As Switzerland has a small population, about three-quarters of the SFr100m worth of manufacturing output is exported.

That is part of the background against which the increasingly passionate debate over Swiss economic policy is being fought. Up to now, the financial and manufacturing sectors have co-existed comfortably and, for the most part, to their mutual benefit.

But in the past two or three years, it has become apparent that their interests no longer converge. Banks are benefitting handsomely from Switzerland's position as the world's premier financial haven, a status that has been enhanced by the country's decision in December, 1992, to eschew European integration.

But the persistent large flows of investment funds into Swiss franc paper have pushed up the national currency to levels that are well beyond those justified by the strength of the economy. That, plus the fear of further sharp rises due to uncertainty over European Monetary Union, has made Swiss manufacturers very nervous. Manufacturers also face extra bureaucratic headaches and, in some cases, discrimination in their sales to countries in the European Economic Area. This came as a result of the country's decision to remain outside of the EEA, and margins in most sectors are now under severe pressure. In January, the Swiss Association of Business and Industry (Vorort), representing all economic interest groups, warned of trouble. "No one would benefit from trench warfare between the financial and industrial sectors," it said in a position paper.

Yet it is not clear how much is being done to the manufacturing sectors, or whether anything can or should be done. The latest statistics from the large machinery sector, for example, do not look too bad. Total new orders in the whole of last year were up 1.3 per cent, sales were 3.7 per cent ahead and exports were up 5.2 per cent to SFr42.7bn. However, they mask a significant deterioration as the year progressed and the franc strengthened. In the fourth quarter, new orders were down 8.3 per cent, and sales were down 3 per cent.

Also, imports in many branches were growing faster than exports, reflecting the tendency of Swiss firms to take advantage of the opportunity to buy their machinery more cheaply abroad. Industry leaders have been claiming for some time that their member companies are creating more jobs and spending more of their research and development funds abroad than in Switzerland.

Another trend has been for companies to add ever more value outside of the country. According to a recent survey of 85 top firms, the average domestic value added in machinery products was only 39 per cent last year compared with 56 per cent in 1985.

Mr Fritz Fahrni, chief executive of the engineering group Sulzer, says that components bought outside Switzerland account now for 70 per cent of the value of Sulzer pump sets. Similar patterns can be seen in chemicals and pharmaceuticals, with the large Basle-based companies Roche, Ciba and Sandoz moving more of their R&D and manufacturing activities abroad. The merger of Sandoz and Ciba will intensify this trend, as most of the expected 3,000 redundancies will take place in Switzerland.

Some economists believe all this is an inevitable and healthy consequence of the strength of the Swiss economy and the soundness of the government's economic policy. They point, for example, to the country's high rating in international competitiveness surveys. It ranked fifth behind the US, Singapore, Hong Kong and Japan in last year's study by the International Institute for Management Development (IMD) in Lausanne.

A more recent study by IMD, together with IBM (Switzerland), compared a sample of 116 Swiss manufacturing sites with samples already taken in the UK, Germany, the Netherlands and Finland on quality, concurrent engineering, lean production, manufacturing systems, logistics and organisation and culture. The survey showed that the proportion of Swiss factories having "world-class" standards was as large as the average in Europe, 2.6 per cent. But significantly more Swiss firms, 75 per cent, were poised to achieve that status than the 52 per cent in the other countries.

The Swiss National Bank believes that a reasonably valued strong currency provides a constructive pressure on manufacturers to re-examine constantly their performance, and it seems to have been successful in transmitting that message to the country's manufacturers.

"It is very painful, but we understand that there is not much that the SNB can do," Mr Edwin Somm, president of the Swiss Association of Machinery Manufacturers, said recently. "We would like it to be more willing to take risks, but there is no doubt that price stability is very important for us."

**World competitiveness**

| Rank | Country | |
|---|---|---|
| 1 | US | 100.0 |
| 2 | Singapore | 95.3 |
| 3 | Hong Kong | 84.7 |
| 4 | Japan | 81.1 |
| 5 | Switzerland | 80.7 |
| 6 | Germany | 79.3 |
| 7 | Netherlands | 75.5 |
| 8 | New Zealand | 75.2 |
| 9 | Denmark | 74.8 |
| 10 | Norway | 74.4 |
| 11 | Taiwan | 72.1 |
| 12 | Canada | 71.8 |
| 13 | Austria | 70.9 |
| 14 | Australia | 70.5 |
| 15 | Sweden | 70.0 |
| 16 | Finland | 69.7 |
| 17 | France | 69.5 |
| 18 | UK | 69.0 |
| 19 | Belgium/Lux | 68.5 |
| 20 | Chile | 66.4 |
| 21 | Malaysia | 66.1 |
| 22 | Ireland | 64.7 |
| 23 | Israel | 62.3 |
| 24 | South Korea | 61.8 |
| 25 | Iceland | 60.9 |
| 26 | Thailand | 58.3 |
| 27 | Egypt | 53.3 |
| 28 | Spain | 52.5 |
| 29 | Argentina | 51.6 |
| 30 | Italy | 50.7 |
| 31 | Portugal | 49.4 |
| 32 | Peru | 47.6 |
| 33 | Indonesia | 47.1 |
| 34 | China | 46.0 |
| 35 | Philippines | 46.0 |
| 36 | Colombia | 45.8 |
| 37 | Brazil | 45.4 |
| 38 | Czech Republic | 44.2 |
| 39 | India | 42.4 |
| 40 | Turkey | 41.8 |
| 41 | Jordan | 40.8 |
| 42 | South Africa | 40.8 |
| 43 | Greece | 38.9 |
| 44 | Mexico | 37.2 |
| 45 | Poland | 35.1 |
| 46 | Hungary | 31.6 |
| 47 | Venezuela | 30.9 |
| 48 | Russia | 10.0 |

Source: World Competitiveness Report 1995, IMD, Lausanne

■ **Inward investment:** by Frances Williams

# Tax breaks pull in foreigners

## While high labour costs have pushed locals abroad, inward investors favour the country

Switzerland is rated as one of the world's most competitive countries. Yet its labour costs are second only to those of Germany, prices are among the highest in Europe and the Swiss franc is the strongest currency in the world.

Most of the country's biggest companies have shifted at least part of their operations abroad. Barely a week goes by without newspaper reports of job cuts at home as firms seek cheaper locations for production and, increasingly, research and development. In 1994, according to the Swiss National Bank, Swiss companies invested a record SFr15.1bn overseas and increased jobs abroad by more than 5 per cent while Swiss employment shrank. Switzerland nevertheless retains some pull as a manufacturing centre. Inward investment amounted to SFr4.5bn in 1994, the money coming roughly equally from North America and Europe.

In recent months a number of well-known companies have announced plans to set up manufacturing operations in the western French-speaking part of Switzerland, among them the US computer group Silicon Graphics, Baxter and Medtronic, two US medical technology companies and Nutricia, the Dutch baby food concern.

One reason for this has been generous tax breaks offered by the cantonal governments under laws designed to help disadvantaged Swiss regions.

Neuchâtel, hard hit by the crisis in the Swiss watchmaking industry in the 1970s, has been particularly adept at winning jobs for its highly-skilled workers. Over the past 15 years, foreign companies ranging from Johnson & Johnson to Nokia of Finland have invested SFr1.5bn and created 5,000 jobs in the canton, generating employment for up to 20,000 more.

However, tax breaks alone would not be sufficient to entice these firms to Switzerland nor justify the big investments involved. The quality of the labour force and infrastructure, alongside Switzerland's multilingual and multicultural tradition, and its central geographical position in Europe, have all been factors.

Mr William George, president of Medtronic, says Lausanne was chosen for the site of a pacemaker factory and research base because of several renowned medical research centres nearby and Swiss skills in automated manufacturing as well as "the extremely favourable business climate and tax incentives in Switzerland".

Even without tax holidays and investment subsidies, Swiss workers can more than pay for themselves in high productivity and high quality output, according to Mr Werner Haefleter, director of Lego Production in Switzerland. Lego, the family-owned Danish plastic brick-maker, which began manufacturing in Switzerland in 1974, recently invested more than SFr160m in a new factory complex near Lucerne. Switzerland supplies the Duplo bricks for young children and the Technic (Meccano-type) range for the entire world market. With labour costs accounting for less than a quarter of total production costs, Lego's Swiss operation compares favourably with its other plants in Denmark, the US, Brazil and South Korea, says Mr Haefleter.

Swiss political and economic stability has also been a plus. "We Swiss take it for granted but for foreigners it is something unusual," he says. For Mr Javald Aziz, who heads Silicon Graphics' European operations, Switzerland's low social charges and peaceful industrial relations were apparently decisive.

■ **Tourism:** by Frances Williams

# Sun, snow and slump

## The strong franc is partly to blame but even the Swiss complain about the costs of services

Switzerland's tourist industry, the country's third largest foreign exchange earner and one of its biggest employers, has suffered more than most from the strength of the Swiss franc and economic stagnation.

The number of overnight stays in Switzerland's 6,000 or so hotels slumped by 4 per cent last year to 32.6m, the lowest level since 1979 and the fifth consecutive annual decline.

Hotels suffered their worst summer season in 37 years, and about 70 closed their doors for good in 1995. Unemployment in the hotel and restaurant sector is now running well above 13 per cent, three times the Swiss average.

Meanwhile, the gap between spending by foreign tourists in Switzerland, and spending by Swiss tourists abroad, for years an important contributor to Switzerland's hefty current account surplus, has begun to shrink rapidly.

If current trends continue, the tourist surplus will be eliminated in the year 2000, according to Mr Christian Seiler of the Seiler hotel group.

So alarmed have Swiss politicians become by the crisis afflicting the industry that parliament has just approved a government proposal to cut value-added-tax for hotels from the normal 6.5 per cent to 3 per cent for the next 10 years.

Some 300,000 people – one in 11 workers – are involved directly or indirectly in tourism, which contributes about 6 per cent of Switzerland's gross national product. In mountain communities, almost one in two workers rely on earnings from tourism.

Sorting out the blame for the industry's parlous state of affairs is not easy, though undoubtedly the exchange rate has played an important part. A recent study by the University of Saint Gallen showed that on balance a 1 per cent rise in the franc against a country's currency leads to a 1.5 per cent drop in overnight stays by visitors from that country. Sure enough, in 1995, tourists from weak-currency countries stayed away in droves, with overnight stays by visitors from Italy slumping by 21 per cent and from Britain by 15 per cent.

However, the biggest impact on the industry came from the loss of German and Swiss tourists, who together account for nearly two-thirds of all overnight stays. Stays by German visitors were down nearly 7 per cent last year, while stays by Swiss fell nearly 5 per cent. The economic slowdown in both countries has also dented the industry's fortunes, as it has in neighbouring Austria.

At the same time, many critics argue that the tourist industry must itself shoulder part of the blame for the current crisis because it has failed to match intensifying world-wide competition for the tourist's dollar. "We are providing a service for Ferraris, even though these days everyone drives Volkswagens," says Mr Francis Scherly, a consultant and former director of the Glion hotel training centre. "Why should I pass a night at Zurich for SFr300 when for SFr270 I can go to Rome, room price included?"

Apart from high prices, the main complaints include inadequate investment in upgrading hotel and leisure facilities, Switzerland's old-fashioned stuffy image, and neglect of that most important of virtues in this touchy-feely industry: friendly attentive service.

Even the Swiss complain that the cost of holidaying in Switzerland is not matched by the level and warmth of service tourists expect.

These criticisms are taken seriously by Swiss Tourism, the revamped former Swiss National Tourist Office, which, armed with a new logo and a new boss, Mr Marco Hartmann, has been working hard to give the industry a fresh image.

Mr Paul Reutlinger, outgoing chairman of Swiss Tourism, points out that Switzerland is never going to be a cheap holiday destination, whatever the fortunes of the franc. The only possible strategy, he says, is to be better than the competition. "Our biggest task is to convince the potential visitor that in Switzerland he will have a holiday that is out of the ordinary and will leave him with better memories than any other. It's our only chance of lifting the debate above price considerations and putting the stress on the quality-price relationship." Swiss Tourism has thus put the emphasis on developing products and packages to entice holidaymakers looking for something different, especially holidays centred on activities such as mountain biking, golf or snowboarding, or related to festivals.

"It's not enough simply to evoke the beauties of nature," says Mr Reutlinger. "We have to put in people's minds the idea that Switzerland is a great place for holidays." And he echoes the remark of Mr Nicolas Hayek, chairman of SMH, makers of the Swatch plastic watch, that every consumer product must have an emotional component.

Swiss Tourism has certainly proved it can emote with the best of them. Last October, it staged an international snowboarding competition in London's Covent Garden, importing 75 tonnes of snow for the purpose. The event, complete with music and light-show, attracted 90,000 people.

Swiss Tourism is also aiming to reinforce Switzerland's reputation for quality, improve service standards and create a distinctive brand-image. The strategy paid off for Swissair, the national airline, where Mr Reutlinger was marketing chief until appointed in late February to run Sabena, Swissair's troubled Belgian partner.



هكذا من الأصل

# INVESTING IN CENTRAL AND EASTERN EUROPE

## Dawn of a more hopeful era

**The countries of Eastern Europe have passed through the painful dismantling of communism into a recovery phase, says Anthony Robinson**

The peaceful disintegration of the Soviet Empire unleashed enormous pent-up energy, the overwhelmingly beneficial economic potential of which is only now becoming clear, and even then not yet to everybody.

The talk at this year's annual meeting of the European Bank for Reconstruction and Development (EBRD) in Sofia, the Bulgarian capital, will be the prospect of "Asian-tiger style" growth rates for much of the former communist world. But those gathered will be uncomfortably aware that in less than three months' time Russian voters go to the polls to elect a new president.

It is possible that they will choose a self-proclaimed communist who promises to bring back the old days when "the people" were deemed to be "equal", when bread made from imported grain was so cheap it was fed to the pigs, when extreme environmental degradation officially did not exist, and when the vast resources of an immense empire were spent mainly on producing guns, tanks, rockets and aircraft.

It is possible, but unlikely, especially if echoes from the positive experiences of a growing number of former communist countries extend into the distant reaches of a country which currently stands on the verge of sustainable economic recovery. For the most important message of this year's transition report from the EBRD, the most optimistic to date, is that the 150m inhabitants of Russia face the best opportunity since 1914 of creating a decent standard of living for themselves by persevering with painful economic reform measures already proving successful across a broad swathe of central Europe.

Initially, reports and statistics from the post-communist world spoke of plummetting production, rising unemployment and entire socialist company towns faced with extinction. During this phase of "creative destruction" factories producing goods which piled up in warehouses and giant military factories, many of them deep in secret underground caves, closed down or shed thousands of workers.

For millions of people the end of socialism seemed to usher in another cruel joke from the "worse means better" theory of life. The official statistics, quick to pick up the collapse of the old, were slower in picking up the green shoots and the raw dynamism of the rapidly growing private and privatised sectors of the former centrally planned economies.

But suddenly the air and water started to become cleaner, attractive consumer goods never seen before started to appear in newly privatised shops supplied by private traders – and many colonels, generals and party bosses became enormously rich by selling off the vast stockpiles earmarked for the military factories. More than $50bn is conservatively estimated by western bankers to have left the former Soviet Union in this phase. The outcome of June's presidential elections could decide when, and how much, of those funds return to productive investment in Russia and elsewhere.

Powerful Russian companies, such as Gazprom, are already investing in projects abroad, including the inter-connector joining the British gas grid to the continental network, and two big gas pipelines from northern Siberia through Poland and Bulgaria to serve northern and southern Europe. Russian shipping companies are buying new ships from yards in Poland or Croatia, sometimes with financing from the EBRD and western banks, and leasing them on routes where they never touch Russian ports. The crucial need is for productive investment, domestic and foreign, in Russia itself.

Such investment is still awaited in Russia, but is starting to flow in ever increasing volumes into those countries where the destructive initial phase has given way to the recovery stage of the transition process. "Increased financial stability has helped to trigger a sharp rise in inflows of funds from abroad," the EBRD notes. The Institute of International Finance (IIF) adds that "the net flow of lending and foreign direct investment from private sources abroad into the region rose from $13bn per year in 1993/4 to $21bn in 1995, roughly 12 per cent of total net private capital flows". Official flows from the IMF, World Bank, the European Investment Bank and the EBRD itself are also rapidly increasing.

Significantly, three of the four countries into which the bulk of foreign direct investment has been channelled to date are those where market-orientated reforms are the furthest advanced and where the crucial institutional and legal frameworks are sufficiently developed to raise both their attractiveness to foreign investors and their ability to absorb such capital productively. This troika is made up by the Czech republic, Hungary and Poland. The fourth is Russia, but mainly by virtue of its sheer size, as most private foreign investors still lack confidence in the legal and political framework there.

The last five years have, nevertheless, seen a quantum leap in knowledge about the countries formerly isolated behind the iron curtain, and in the confidence of investors. Many investors who started modestly in one or several of the central European countries have built up their original investments.

Some have gone further and decided to use both their operations and their local staffs in Poland or the Czech republic as springboards for what are still widely perceived as more adventurous and risky ventures further east.

One of the first and most successful of these leap-froggers has been ABB which now employs more than 8,000 in a number of plants in Poland, which itself has become a staging post for ABB's subsequent expansion into Ukraine, Russia and other points east. Other house-hold name multinational groups, including Coca-Cola, Unilever, and Procter and Gamble, also invested heavily in central Europe before moving east with more confidence. McDonalds, an exception, set its sights on Russia early and has expanded rapidly through ploughing back profits.

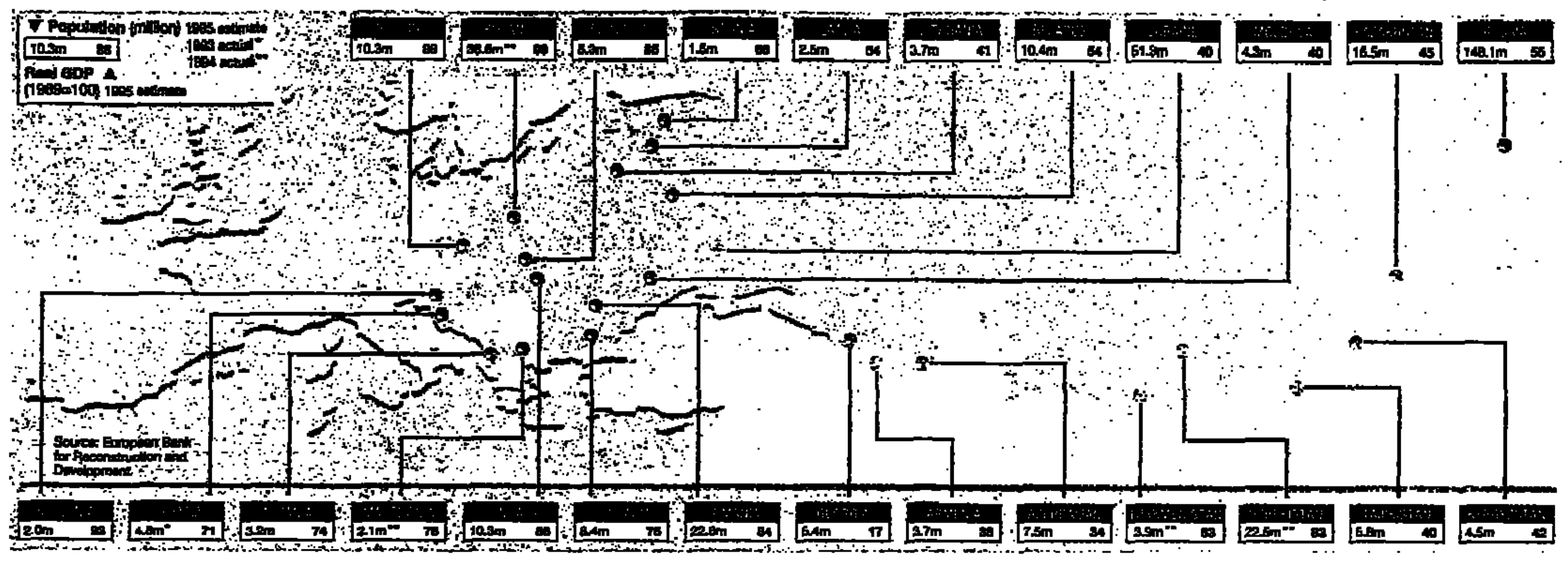
Last year Michael Dingman, a Bahamas-based American private investor, bought a controlling stake in eight Czech companies for around $250m and then moved on to buy control of the Russian company, Segezha, one of the world's biggest paper bag makers, through his Prague-managed Stratton Investments.

The attraction of such deals is that judiciously injecting working capital to get production moving again at one end and taking charge of marketing arrangements at the other secures ownership of vastly under-utilised but debt-ridden assets. Mr Dingman's hunch is that such assets, cheaply bought, are capable of turning out great streams of income, provided good local management can be energised and a close eye is kept on the political realities.

Throughout the region, huge untapped reserves of efficiency and higher productivity remain to be unlocked. The EBRD is starting to talk seriously of the prospect of "Asian-style" growth rates spreading across the region from central Europe where they are already in sight. "The region has an educated labour force, an increasing degree of macro-economic stability and an openness to foreign trade and inward investment. These are the factors which have underpinned high growth in south east Asia. They are beginning to do the same in parts of eastern Europe and the Baltics."

The London-based bank goes further. "It is likely that the transition economies will be able to achieve even higher growth rates (than South East Asia) for the same level of investment." A glance at the extraordinarily high rates of labour productivity gains in the most advanced transition economies, especially Poland, indicates that such growth is already taking place and is allowing high rates of profit and re-investment to co-exist with rising levels of real incomes.

Ensuring that the potential for decades of growth and rising prosperity is realised, however, requires continuing attention to macro-economic stability and a series of institutional reforms. These include the construction of modern, self-financing health and social security systems, and the financial and banking institutions required to ensure that domestic savings, the main fount of future investment, can be mobilised to fund the enormous infrastructure and other investments which are only just beginning.




Vaci Utca, Budapest: the end of socialism saw attractive consumer goods appearing in newly privatised shops

### IN THIS SURVEY

● Central Europe: return to 'normality'
● Baltic region: Estonia sets the pace Page 2

● Belarus and Ukraine: Borderlands in limbo
● Balkan and Black Sea region: uphill battle to find favour Page 3

● Central Asia and Caspian Sea: opportunities are there
● Russia: painful progress to capitalism
● Mineral resources: energy for next century Page 4

● EBRD: a paragon of banking propriety
● Politics of transition: former Soviet empire rules out old regime Page 5

SPECIAL REPORT: BULGARIA
● Introduction: opportunity beckons for energy crossroads Page 6

● Economy: escape from the doldrums
● Banking: weakest point in the economic picture
● Foreign trade: alarm bells ring in Sofia Page 7

● Varna and Burgas: bustle returns to two cities
● Topenergy: Russian gas venture evokes controversy
● Tourism: enormous potential untapped Page 8

# Painful adjustment for former Soviet empire

The Soviet empire which started to disintegrate at its central European edges in 1989, and collapsed on its Russian core in August 1991, was the greatest land empire ever built.

It encompassed all the lands accumulated by the tsars in 400 years of continuous expansion, and a whole swathe of central Europe, including a third of a greatly reduced Germany, which had never been under Russia's control.

Contemplating the scope and complexity of this huge area of one sixth of the earth's land surface was daunting when it was ruled as a monolithic tyranny.

The disintegration of that empire into nearly 30 sovereign states, many with extraordinary ethnic, cultural, economic and other differences contained within them, and all involved in a wrenching process of political and economic change, has made the task of comprehension almost impossible.

But that is the vast area in which the European Bank for Reconstruction and Development (EBRD) operates.

This survey, which is designed to complement the economic analyses and statistics produced by the bank, has split up the former empire into six regions.

This is purely a device to give a broad overview of the very different ways in which the various regions of the old Empire are adjusting to what for many has been a liberating, but also a bewildering and painful process, which has far from run its course.

**Anthony Robinson**

**Growth in eastern Europe, the Baltics and the CIS***

| Countries | 1990 | 1991 | 1992 | Real GDP 1993 | 1994 | 1995 (estimate) | 1996 (projection) | Estimated level of real GDP in 1995 1989=100 | Projected level of GDP in 1996 1989=100 |
|---|---|---|---|---|---|---|---|---|---|
| | Percentage change | | | | | | | | |
| Albania | -10 | -28 | -10 | 11 | 7 | 6 | 5 | 74 | 78 |
| Armenia | -7 | -11 | -52 | -15 | 5 | 7 | 7 | 38 | 40 |
| Azerbaijan | -12 | -1 | -23 | -23 | -21 | -17 | -7 | 34 | 32 |
| Belarus | -3 | -1 | -10 | -12 | -20 | -12 | -6 | 54 | 51 |
| Bulgaria | -9 | -12 | -7 | -2 | 1 | 3 | 3 | 75 | 76 |
| Croatia | -9 | -14 | -9 | -3 | 1 | 2 | 5 | 71 | 74 |
| Czech Republic | 0 | -14 | -6 | -1 | 3 | 5 | 6 | 86 | 90 |
| Estonia | -8 | -11 | -14 | -7 | -3 | 4 | 6 | 66 | 70 |
| FYR Macedonia | -10 | -12 | -21 | -8 | -4 | -4 | 3 | 53 | 55 |
| Georgia | -12 | -14 | -40 | -39 | -35 | -5 | 5 | 17 | 18 |
| Hungary | -4 | -12 | -3 | -1 | 3 | 2 | 2 | 86 | 86 |
| Kazakstan | 0 | -13 | -13 | -12 | -25 | -9 | 1 | 45 | 46 |
| Kyrgyzstan | 3 | -5 | -25 | -16 | -27 | -6 | 1 | 42 | 43 |
| Latvia | 3 | -8 | -35 | -15 | 2 | -1 | 1 | 54 | 54 |
| Lithuania | -5 | -13 | -38 | -24 | 2 | 3 | 3 | 41 | 42 |
| Moldova | -2 | -18 | -29 | -1 | -31 | 2 | 6 | 40 | [illegible] |
| Poland | -12 | -7 | 3 | 4 | 6 | 7 | 4 | 99 | 105 |
| Romania | -6 | -13 | -9 | 1 | 4 | 7 | 4 | 84 | 88 |
| Russia | -4 | -13 | -15 | -9 | -13 | -4 | 3 | 55 | 56 |
| Slovak Republic | 0 | -15 | -6 | -4 | 5 | 7 | 5 | 85 | 90 |
| Slovenia | -5 | -8 | -5 | 1 | 6 | 5 | 5 | 93 | 98 |
| Tajikistan | -2 | -7 | -29 | -11 | -21 | -12 | -8 | 40 | [illegible] |
| Turkmenistan | 2 | -5 | -5 | -10 | -20 | -5 | 0 | 63 | 63 |
| Ukraine | -3 | -12 | -17 | -17 | -23 | -12 | -2 | 40 | 39 |
| Uzbekistan | 2 | -1 | -11 | -2 | -4 | -2 | -3 | 83 | 81 |
| Eastern Europe, the Baltics and the CIS | -5 | -12 | -10 | -6 | -7 | -1 | 3 | 66 | 68 |
| Eastern Europe and the Baltic countries[a] | -7 | -11 | -4 | 0 | 4 | 5 | 5 | 87 | 91 |
| The Commonwealth of Independent states[b] | -4 | -12 | -15 | -10 | -14 | -5 | 2 | 53 | 54 |

* Data for 1990-94 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the IMF, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1995 are preliminary actuals, mostly official government estimates. Data for 1996 represent EBRD projections. [a] Estimates for real GDP represent weighted averages for Albania, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The weights used were EBRD estimates of nominal dollar-GDP for 1995. [b] Here taken to include all countries of the former Soviet Union, except Estonia, Latvia and Lithuania. Estimates for real GDP represent weighted averages. The weights used were EBRD estimates of nominal dollar-GDP for 1995. Source: European Bank for Reconstruction and Development

**Central Europe:** by Anthony Robinson

## Return to 'normality'

### As the reforms enter their sixth year, the gains of transition outweigh the initial pain

Few who remember the grim, run-down and insolvent Poland of 1989 with its obsolescent mines and shipyards, endless food queues and hyper-inflation, can fail to marvel at the transformation in less than six years. The zloty is a virtually convertible currency, foreign trade grew nearly 50 per cent last year and Citibank is the pioneer among a growing number of multinational banks and companies setting up their regional headquarters in Warsaw which is also becoming an increasingly important airline hub.

With a potential market of nearly 40m people, a location between Berlin and Moscow, and situated between Scandinavia and south/central Europe, Poland has been the fastest growing medium-sized economy in Europe for two years and could well be so again in 1996.

It is a similar story in the Czech Republic, the first of the former communist countries to join the Organisation for Economic Co-operation and Development (OECD). Communist toadies, reimposed by Soviet tanks in 1968, lacked the imagination to borrow abroad, but left their industries overmanned and behind times and their fairy-story cities falling down and covered in grime. A day trip to Prague, or Brno today is enough to see the superficial transformation. The import figures for sophisticated industrial equipment show how rapidly the Czechs are heading for a return to their pre-war status – democratic, richer than the Swiss and as technically advanced as the Germans.

Slovakia, which divorced in a civilised fashion from Czechoslovakia in 1992, is lead by Vladimir Meciar, a politician closer in his idiosyncratic personal style to President Lukashenka of Belarus than a "normal" prime minister of an elected government. But the Slovak economy, formerly deeply intertwined with Comecon and the Warsaw pact military economy, has benefitted from the global upturn in demand for its basic industrial and chemical products, and by the skills and hard work of its people.

> Historical factors play an important conditioning role

Hungary, once known as "the happiest barracks in the blok", always looked more cheerful and better fed in the last decades of "goulash communism". But prosperity was only skin deep and underpinned by ruinous foreign borrowing, the price of which is only now being paid. For just over a year the socialist government has stuck with a painful austerity package worked out by the former finance minister, Lajos Bokros, and George Suranyi, the brilliant governor of the National Bank of Hungary.

Austerity has been accompanied by a determined privatisation drive which brought in nearly $4bn last year and reinforced Hungary's pre-eminent position as a target for foreign investment. The results are now coming through in a rapidly falling trade deficit and restored international confidence. Vital social security reforms are also under way to round off a strategy designed to underpin a steady reduction in crippling foreign and domestic debt and create the basis for future sustained growth in both output and incomes.

As the reforms initiated in central Europe by Leszek Balcerowicz, Poland's pioneering finance minister, enter their sixth year the message from this region is that the gains of transition definitely outweigh the initial pain – and that delay deepens the pain and reduces the gain.

The other, perhaps less encouraging lesson from the leading edge of the transition process, is that cultural and historical, as well as geographical factors, play a very important conditioning role. At its crudest this means that countries such as the Czech Republic, Hungary, Poland and Slovakia, as well as Slovenia, Croatia and Estonia, which are closest, or physical neighbours of, prosperous, stable EU countries have a huge advantage in marketing and in attracting investment.

But those advantages are compounded by the fact that historically most of these countries were formerly an intrinsic part of the dynastic Europe of Empires whose dissolution through war in 1914 created the vacuum eventually filled by the far crueller totalitarian models. For the central European states the collapse of Moscow's power allowed them to return to modern forms of half-forgotten, but recognisable and more congenial ways of social, political and economic organisation. Beyond the borders of Russia and the eastern shore of the Black sea different memories, and different rules, apply.

Meanwhile, the return to "normality" in central Europe means that the shift in the focus of the European Bank for Reconstruction and Development's (EBRD) activities is inevitably moving further east. "But there is still lots to do in central Europe, and much that won't be done without our participation," says Guy de Selliers, deputy vice-president of the EBRD.

"Up to now we've concentrated on project finance and corporate lending to indigenous companies. But the central Europeans are now gearing up for big motorway and other infrastructure investments. These involve difficult, time-consuming packages, and a higher element of non-commercial, political risk because of the interface between the public and private sectors. This is where the big volume investments will take place, and the EBRD will be the linchpin for many of them," Mr de Selliers adds.

**Baltic region:** by Matthew Kaminski and Anthony Robinson

## Estonia sets the pace

### All three states have launched economic and financial policies designed to underpin their independence

The Soviet Union's last president, Mikhail Gorbachev, used to warn the Baltic states that independence would sink them. It has not turned out that way. For one of the lessons of the transition process is that turning round the economies of small, compact and determined countries is much easier and faster than changing the course of a sprawling behemoth.

The three small Baltic states of Estonia, Latvia and Lithuania, which all gained independence from Russia in 1919 only to be re-occupied again in 1940, seized with alacrity the opportunity to regain their independence offered by the failure of the August 1991 Moscow coup. Prices were freed, new currencies successfully introduced, Soviet factories were sold or closed. Renewed ties with old Hanseatic League partners around the Baltic Sea helped to make up for the fall in trade with Russia and the other Soviet states.

Since then all three have established frontier posts, defence forces, parliaments, flags and parties and launched economic and financial policies designed to underpin their independence and prepare their hoped-for eventual inclusion into the EU and Nato.

Estonia, with its linguistic, cultural and physical proximity to a supportive Finland, has been the pace-setter. A young cabinet turned Estonia into a laboratory for free market reform: subsidies were brutally slashed and trade borders were swung open, even for farm goods. That radically changed the face of the economy. The share of agriculture and industry in GDP fell from 20 per cent and 40 per cent in 1991, to 7 per cent and 17 per cent last year as trade and services grew rapidly. The economy grew 4 per cent in 1995, and might grow 6 per cent this year, according to EBRD forecasts.

Politically, the economic renaissance did save the Fatherland Party-led government. Discontent among the elderly and rural Estonians, and frustration with an arrogant ruling style, brought a less staunchly pro-market coalition to power in parliamentary elections last year. Successive governments, including the present one led by Tiit Vähi, have not swerved from the path.

A controversial privatisation programme, modelled on Germany's Treuhand scheme, plans to finish its strategic tender sales this year, having put roughly 74 per cent of large state enterprises in private hands. The next stage is the sale of the utilities and ports. Estonia's financial sector remains in infancy, however, with no formal secondary market for stocks, and rapid growth is sucking imports which are expected to raise the current account deficit to $220m this year.

Brimming with a self-confidence out of proportion to their nation's size, many Estonians resent being grouped together with their southern Baltic neighbours when the EU membership question comes up. This is partly national pride, partly a desire not to get too closely involved with their linguistically and culturally distinct neighbours.

Latvia and Lithuania have both come through a turbulent year littered with banking crises and domestic political upsets. The two biggest Lithuanian commercial banks closed in late December, causing a financial crisis that forced the resignation of the prime minister, Adolfas Slezevicius, and led to a brief run on deposits at other institutions.

The government in Vilnius acted quickly, but the economic cost will be high. A trust to recover about $350m in bad loans has been set up and the two banks nationalised. Individual depositors are to be partly compensated with state funds. The economics ministry is downgrading earlier optimistic forecasts of 4.2 per cent growth and 20 per cent inflation this year.

Latvia felt an even bigger tremor last year when Baltija, the largest bank, collapsed and took 40 per cent of the sector down with it in May. The government planned a rescue, before realising that its assets had been stripped. Initially forecast to grow, GDP fell 1 per cent in 1995, as the economy lost precious liquidity. The budget deficit doubled last year.

But Riga, the Latvian capital, was a thriving financial centre before the war and is poised to try and regain that mantle, linked to Russian capital and transit trade. Another negative factor is the failure of the Latvian government to back promises of faster privatisation with the needed political will.

The litmus test could be the planned sale of Ventspils, formerly the Soviet Union's

Continued on page 3

# Estonia sets pace

Continued from page 2

main oil port on the Baltic.

Meanwhile, a debt mountain in the energy sector helped spark the banking crisis in Lithuania, whose government moved slowly to free prices last year. Foreign debt shot up from $8m in 1994 to $358m a year later, mostly to cover energy imports. Many blame politics for turning foreign investors off Lithuania, where parliament's refusal to allow foreigners to own land could undermine attempts at closer integration with the EU.

All the Baltic states want to join the EU and Nato and are backed by friends in Nordic capitals. But western leaders warn their only way into western institutions is as a group. That means regional co-operation must improve.

The long Russian shadow complicates their ambitions for full integration with the west. Many among the large Russian minority that came to Latvia and Estonia after 1945 have not been granted citizenship, particularly former military and security personnel closely connected with the old regime which ruled the Baltic states like a colony. The question of rights and citizenship will continue to provoke the ire of Russian nationalists and raise doubts in the west about the Baltic states' commitment to Brussels-style democracy.

Lithuania is particularly vulnerable to Russian pressure because it provides the only land link to the heavily militarised Russian enclave of Kaliningrad, now potentially Russia's first line of defence against an expanded Nato.

In March, Moscow sent shivers down spines in Poland when senior Russian officials suggested building a transit highway which would connect Russia with Kaliningrad through Belarus and a special "Polish corridor". This would pass through a corner of north-east Poland, a suggestion which immediately brought back memories of the old inter-war Danzig corridor. This gave Poles a corridor through German territory to the Baltic. Its re-integration into Germany was accomplished by the Nazi invasion of 1939. In this part of the world memories are worn on the sleeve.

■ **Belarus and Ukraine:** by Matthew Kaminski

# Borderlands in limbo

## The two east Slavic countries remain highly susceptible to pressure from Moscow

Four years ago the cities of Minsk and Kiev suddenly, and to general astonishment, became capitals of independent countries following the dissolution of the Soviet Union. Until then they were mere provincial cities, without strong local elites or institutions, their talented people attracted to Moscow and the service of the Soviet empire. Today the former Russian colonies languish in limbo between east and west, awkward borderlands between the rapidly modernising Baltic and central European states to their west and a reviving Russia to the east.

Their fate is not yet decided. The two east Slavic nations could follow the arduous path traced by their central European neighbours to independence and modest prosperity or slip back to Moscow's tutelage. The choice will be dictated by Russia, by the west and by themselves, and not necessarily in that order.

Wedged between Poland and Russia, Belarus is trying to buck the revolutionary changes sweeping across the region. Its leaders, faced with an economy spiralling downwards, have reacted by leading the charge to forge anew the links that once bound the Soviet republics.

On April 2 Belarus and Russia signed a "union" treaty, deepening economic integration without spelling out how far the merger would go. The Belarusian President, Aleksandr Lukashenko, called for a "real union with supranational institutions and a common budget", but his Russian counterpart, Mr Boris Yeltsin, quickly made clear that swallowing Belarus was not intended.

The high economic cost scuttled a previous attempt to establish a common currency. But Mr Yeltsin, who made an independent Belarus possible in 1991, might now be ready to put political benefit above economic sense. Many analysts still expect any future union to be watered down by the expense of taking on Belarus's unreformed heavy industry and weak currency. But a customs union joining Russia, Belarus and Kazakhstan was put in place last year and Kyrgyzstan joined in March 1996.

Following last May's referendum, which gave Mr Lukashenko his mandate to push ahead with integration rather than reform, the Soviet era flag and insignia have been restored, Russian has been made the state language and economic union sanctioned.

"Belarus commits suicide," declared Rzeczpospolita, a quality Polish daily, reflecting concern in Poland and Lithuania, its two neighbours, that Belarus's collapse into confederation or outright reunion with Russia could whet Moscow's imperialist appetite. Not everyone backs Mr Lukashenko. His strong-arm tactics – ignoring the constitutional court, locking out parliament, banning newspapers and outlawing free trade unions – have emboldened the small, mostly young, dissident community. In December voters ignored their president and voted in sufficient numbers to elect a parliament, following a six-month hiatus. Mr Lukashenko tried to prevent this by imposing restrictions on campaigning and seeking endorsement of "strong hand" personal rule.

Economic reform still does not seem imminent, even though the GDP and real wages both fell 10 per cent last year. Communists control the chamber and the president is an economic populist. In March Mr Lukashenko froze the small-scale privatisation effort, forbade registration of new businesses and threatened to nationalise the six biggest commercial banks. The International Monetary Fund has cancelled its stand-by programme.

Ford is a rare large foreign investor and plans to assemble cars and vans at the Minsk Tractor Plant. German companies are also eager to exploit Belarus's strategic location on the main road and rail link between Russia and Europe. But most foreign investors are biding their time, despite low wages and good location.

By comparison to Belarus the future for Ukraine, its southern neighbour, looks relatively rosy. Unlike Belarus, whose identity crisis permeates all aspects of political life, a viable Ukrainian national movement flowered during 150 years of Habsburg and Polish rule in the western part of the country. This provided the impetus for Ukraine's break from Moscow in 1991 but in the 1994 elections elite groups from the industrialised, Russian-speaking eastern regions were brought back to power by Leonid Kuchma's presidential election victory and they too now support Ukraine's sovereignty and oppose economic and military integration within the Commonwealth of Independent States.

Aleksandr Lukashenko: a mandate to push ahead with integration

Kiev took the lead in creating an independent army and signing up to Nato's partnership for peace programme.

As in Belarus, location is an economic asset for Ukraine. Many of the biggest Black Sea ports, including Odessa and Kherson, are in Ukraine although the future of the Black Sea fleet, and the status of Sevastopol its main base in the crimea, remains a bone of contention with Moscow. Most of the gas and oil pipelines to western Europe pass across Ukraine, although Moscow is routing the new Yamal gas pipeline from northern Siberia through Poland.

Small foreign oil companies, such as JKX Oil and Gas of the UK, have started exploiting what geologists believe are substantial oil and gas deposits. These were neglected by the Soviet regime in favour of exploiting the prolific but more distant fields in Siberia. The energy sector could be a magnet for foreign investment, of which less than $800m has been attracted since 1991. Agriculture is another under-exploited asset. Ukraine bestrides the black earth zone, fertile soil which make it one of europe's natural bread baskets.

"Conditions have improved considerably," says Jaroslav Kinach, the EBRD's resident representative in Kiev. The bank doubled its commitments last year to Ecu303.8m with 12 new projects, 10 in the private sector. But hurdles remain. Lingering trade restrictions on grain and sugar highlight only limited success in implementing the economic reform programme.

Ukraine has not kept promises to the IMF and other western donors, who provided $5.5bn last year. The IMF this month cancelled Ukraine's $1.5bn stand-by loan. Talks are under way on a new $900m facility. Privatisation is slow, and investors complain of red tape and corruption. GDP fell 12 per cent in 1995.

Many Ukrainians fear that Moscow, with its domestic agenda of protecting "Russians abroad" and bringing back the wayward colonies, will exert ever stronger political pressure and are awaiting anxiously the results of the presidential elections in Russia. Even Ukrainian socialists were aghast when in February, during a banquet held for a Duma delegation in Kiev, a Russian communist deputy proposed a toast to "Great Russia, White Russia and Little Russia" – the Soviet and Russian Tsarist names for the three east Slavic nations, which the other two find insulting.

Washington's view of Ukraine as a bulwark against Russian expansionism has hardened as a consequence and Ukraine has become the third biggest US foreign aid recipient.

■ **Balkan and Black Sea region:** by Anthony Robinson

# Uphill battle to find favour

## The sense of exclusion has been reinforced by the bitter conflicts in former Yugoslavia

Metternich, the former Austrian foreign minister, used to say that Asia began at the Landstrasse, the main route heading east out of Vienna. Bismarck, who encouraged the Austrians on the *"drang nach osten"* (the drive towards the east) which mired them fatally in the Balkans before the first world war, declared the region "not worth the bones of a single Pomeranian grenadier".

No wonder people living in this culturally and ethnically complex region ruled for centuries by the Turks have long felt themselves to be second-class citizens of Europe. The sense of exclusion has been reinforced by the bitter ethnic conflicts in former Yugoslavia whose negative effects spread well beyond the conflict areas.

Romania, with 23m people, and Bulgaria with 8.5m, were for example virtually cut off physically from western Europe by the UN-imposed embargo on Serbia and Montenegro. Rubbing salt into the wound, Brussels then put the citizens of both countries on the "Schengen black book", imposing onerous EU visa requirements, and so further isolating the poorest countries of Europe.

A Bulgarian businessman, whose private computer company is providing all the information technology for the European Bank for Reconstruction and Development (EBRD) conference, summed up the frustration felt by many in this region. "The problem is that Bulgaria has no friends. The Poles and Czechs are helped by the Germans, the Hungarians have the Austrians. The French have a special relationship with the Romanians, even the Albanians have the Italians. If the EU gave Bulgaria half the Ecu5bn ($6.25bn) they give to Greece every year we'd be twice as rich as they are within a decade."

To a considerable extent the war in Yugoslavia reflected the desire of Slovenes and Croats in the western part of the former federal state to sever the chains tying them to the volatile Balkans, and free them to forge closer relations with their western neighbours, Italy and Austria.

Since independence Slovenia has created one of the strongest currencies in Europe with inflation down to a single digit in December and another year of export and investment-led growth expected in 1996. Croatia, with access to its hard-currency-earning Dalmatian coast assured by the military expulsion of long-settled ethnic Serb communities from Knin and the Krajina region, but still awaiting recovery of fertile and oil-rich eastern Slavonia, is also rebuilding its economy.

Serbia and Montenegro, shorn of the revenues and hard currency earnings from Slovenia and Croatia, face an uphill task rebuilding an economy which is more or less self-sufficient in food but which depends heavily on supplies from the other republics and on imports for a militarised industrial sector which, like Russia's, must somehow be converted to civilian use.

In between lies Bosnia whose reconstruction after horrendouswar damage and ethnic purging requires a commitment which the EU and other donors seem reluctant to make. Without rapid progress on grass-roots reconstruction, however, prospects for the emergence of a viable state appear to be bleak after up to 60,000 troops in Nato's peace implementation force (Ifor) withdraw later this year under the terms of the Dayton Agreement.

The death in an aircraft crash earlier this month of Ron Brown, the US commerce secretary, and a group of senior executives from the US while on a trade mission to Bosnia, underlined the importance of the US commitment, both to peace and reconstruction in Yugoslavia and to security in the entire Balkan region.

For Washington, the overriding priority is to prevent war between old rivals and Nato members, Greece and Turkey. Both have been heavily re-armed with modern weapons in recent years through Nato's questionable "cascade policy" of recycling surplus weapons from western Europe to replace older weapons in the poorer peripheral states.

> People feel they are second-class citizens of Europe

Defending the integrity of Macedonia, encouraging Albania to concentrate on economic reconstruction rather than the dream of a greater Albania, and pressing Serbia to allow greater autonomy for the Albanian majority in Kosovo, are all part of the overall strategic aim of maintaining peace in one of Europe's historic cockpits. Without Washington's backing, and its sophisticated military command and control capacity, it remains doubtful whether Europe alone would be united or single-minded enough to persevere with what is likely to be an endless and thankless task.

However, there is little alternative. For the strategic importance of the Balkans as a transit route between west-central and southern Europe and between Europe, the Middle East and Asia can only grow in the years ahead. Increasing quantities of Europe's oil and gas supplies are likely to originate in central Asia and the Caspian region as the 21st century progresses. Most will be transported to the west through Russia or Georgia and across the Black Sea to Bulgaria and the Aegean, or through Turkey to the eastern Mediterranean.

■ **Central Asia and Caspian Sea:** by Sander Thoenes

# The opportunities are there

## The five republics see foreign investment as a bulwark against Russian dominance

Kazakhstan was the country of choice among most foreign investors in central Asia for the first five years of its independence. A combination of rich natural resources, political stability and a pro-western government was unbeatable.

After Chevron, the US oil company, moved in with plans to invest $20bn in the Tengiz oil field, and British Gas and Agip set up shop at the Karachaganak gas field, scores of others rushed to Almaty, the capital, to get a piece of the action. But by early 1996, attention had shifted to neighbouring Uzbekistan and to Azerbaijan, across the Caspian Sea.

Azerbaijan's capital, Baku, has become an oil boom town, thanks to a consortium of 11 western, Japanese and Russian oil enterprises producing on the Caspian shelf. Their $8bn project outflanked Tengiz because Azerbaijan was quicker to strike a deal with Russia on transport of so-called "early oil" across Russia to the Black Sea port of Novorossiisk.

The consortium also agreed an alternative pipeline route with Russia last year. This runs from Azerbaijan through Georgia to Turkey, making the overall project less dependent on Russian goodwill.

In central Asia, many foreign businesses are either moving their regional offices from Almaty to the Uzbek capital of Tashkent, or are expanding only in Uzbekistan. British companies registered in Uzbekistan tripled in one year to 33, while the number of German firms rose from 35 to 52.

Kazakhstan may have large oil and gas projects, but few are moving ahead because reliable export pipelines have yet to be built. In Uzbekistan, by contrast, the first Daewoo minibus rolled off the assembly line late March; Daimler-Benz is producing Mercedes trucks and BAT is rolling out cigarettes. Investment in such ventures may be a fraction of Chevron's pledge to Tengiz, but at least they are real.

Uzbekistan, with a population of 23m, has traditionally been the heart of central Asia, and often its ruler. Through a combination of cautious economic reforms and political repression, the country's president, Mr Islam Karimov, has avoided the economic collapse and political unrest that has plagued the region.

Production decline has been relatively small and incomes have not suffered as much as in Kazakhstan, leaving a promising consumer market for imported goods. Unlike its neighbours, which spend hard currency earnings to import oil and gas, Uzbekistan has come close to self-sufficiency.

Foreigners in Tashkent say that Uzbek businesses and officials, after initially holding off or setting unrealistic conditions on investments, are proving more efficient and reliable partners than their neighbours. By contrast, Kazakhstan's image suffered when the government last year cancelled an open tender for an important gold mine, handing it instead directly to Placer Dome for an undisclosed sum.

Kazakhstan still boasts a better infrastructure, however, with more reliable telecommunications and a much more developed banking system. Unlike the Kazakh currency, the tenge, the Uzbek som is not freely convertible. There is an official rate, a commercial rate and a street rate; the difference between the artificially high official rate and the street value is decreasing but still a hefty 25 per cent.

The difficulty of transferring funds in and out of Uzbekistan is one of the main barriers to investment. Moreover, Kazakhstan in March challenged Uzbekistan's favourable tax climate by announcing it would slash export and import tariffs to boost trade.

Kazakhstan may see a revival in western interest following a recent agreement between Russia, Kazakhstan and Oman Oil on inviting outside investors into a consortium for construction of a pipeline to unlock the Tengiz oil field. This agreement, ending three years of haggling, may persuade Chevron to boost its investment and draw in other oil companies now that their oil can actually be exported. Revival of the Tengiz project

> Their only chance of building some independence

should also be a boon to suppliers and subcontractors.

Many are likely to turn to EBRD for initial financing. The bank, which finances projects throughout the former Soviet empire, has jump-started a significant share of new investment projects in central Asia.

In recent years it has financed gold ventures, banks, telecommunications and even a denim-weaving plant in Turkmenistan. In April the EBRD board is expected to approve a $54m loan for a $74m rehabilitation of the port of Aktau, Kazakhstan's only main port on the Caspian Sea.

Turkmenistan boasts the world's third largest gas reserves and has considerable oil fields. But, like its neighbours, the country lacks reliable export pipelines. As a result, the government is so short of funding it cannot even provide enough bread.

Tajikistan has defied sceptics by drawing in some investment, despite the civil war that rages in the republic. The south has turned into near anarchy, but the north, wedged between mountains and neighbouring republics, has been stable, attracting some investors. The most significant project is a joint gold venture between Commonwealth and British Minerals and the government. Cotton, the country's main revenue earner, is still in steady decline.

Kyrgyzstan, less endowed with natural resources than its neighbours, has lured investors with market reforms and a friendly tax environment. Nearly 60 per cent of state enterprises have been privatised and the Kyrgyz som is one of the strongest currencies in the former Soviet Union. All the same, investment has focused on large gold deposits, owned by the government, rather than on the private sector.

Even if Uzbekistan is the favourite for now, all five republics offer great opportunities for risk-taking and conservative investors alike. Aside from Tajikistan, none of the republics faces serious political unrest. Most have succeeded in lowering inflation and stabilising their currency by adhering to tough monetary policy standards prescribed by the International Monetary Fund.

Most importantly for investors, all the republics have come to realise that foreign investment is their only chance of building some level of independence from a Russia that has recently regained interest in what it calls "Russia's underbelly".

Russian troops still defend the outer borders and dominate "peace-keeping" efforts in Tajikistan. Russian companies have made a comeback in Kazakhstan, dominating the metal industry. A customs union between Russia, Kazakhstan, Kyrgyzstan and Belarus has been re-established to boost trade, but that could make these four republics' markets less accessible to outsiders.

If foreign investors hesitate, they may find that their place at the table has been taken.

■ **Mineral resources:** by Sander Thoenes

# Energy for next century

## The region is brimming over with oil, gas and minerals including gold

After three years of haggling which has held up one of the world's largest oil projects, Russia, Kazakhstan and Oman agreed in March to invite investors to construct a pipeline which will unlock the Tengiz oil field in Kazakhstan.

The agreement opened the door for outside investors, expected to include Chevron, Mobil Oil, British Gas and Agip, to join the consortium and ensure financing for the $1.2bn pipeline from northwestern Kazakhstan to the Black Sea.

Chevron, which owns half of a joint venture developing the Tengiz field, has estimated it could produce 700,000 barrels of crude per day and bring in $20bn investment. But the lack of a reliable export route has led the company to cut daily production to 60,000 barrels. Chevron had refused to join a consortium with Russia, Kazakhstan and Oman, arguing that Oman's share – which it has now agreed to cut to about 10 per cent – was too large.

Export routes, such as the Tengiz pipeline, are the key to investment in Central Asia, a region brimming with oil and gas reserves. Although a dispute with Russia over the legal status of the Caspian sea could still disrupt matters, the Caspian Sea shelf promises to be one of the world's biggest sources of hydrocarbons in the 21st century.

All existing pipelines run through Russia, however, and even if they have additional capacity for central Asian oil and gas, Russia exacts a political and economic price that its neighbours are reluctant to accept.

Azerbaijan last year paved the way for Kazakhstan by agreeing with Russia on two alternative export pipeline routes from Baku. One passes through Russia and the other through the Caucasus and on to Turkey. The two pipelines will market oil produced by a consortium of 11 western, Russian and Japanese oil companies on the Azeri part of the Caspian shelf.

The Kazakh agreement, in turn, should encourage a consortium of Agip, British Gas, British Petroleum and Statoil, Mobil, Royal Dutch Shell and Total, which has joined the Kazakh government in exploring the Kazakh part of the Caspian shelf. The group has already taken seismic data on 18,000sq km, out of a total of 30,000sq km, and hopes to announce results next year.

Each of the companies has been promised two blocks on the shelf, but profitability depends on the terms of a production sharing agreement, now being negotiated, and on access to an export pipeline. The government of Turkmenistan has promised to offer similar blocks on its part of the Caspian shelf to foreign investors next year.

Onshore, Mobil and a number of other oil companies are exploring Kazakh oil fields as well. Canadian Occidental and Exxon are expected to bid in a tender in May for two Kazakh oil production associations with proven reserves of more than 2bn barrels.

In the same tender, billed as a test case for privatisation of the oil and gas industry in Kazakhstan, Vitol is expected to bid for the Shimkent refinery. Other western firms have declined to bid, on the grounds that the Kazakh companies are too deeply in debt and too heavily weighed down with non-productive assets.

Recent discoveries of oil and gas deposits in Uzbekistan have helped to make the country all but self-sufficient in energy. The republic is offering 10 oil and gas blocks to international tender via competitive bid, in an attempt to draw in more foreign investment.

Investors have been hesitant about Turkmenistan, where the two largest investors, Bridas from Argentina and Larmag from the Netherlands, have seen their oil production disrupted by disputes with the government. Western companies are upgrading refineries in both republics.

The gas industry faces even greater difficulties in finding a reliable and profitable export route than the oil sector. British Gas and Agip have exclusive rights to negotiate for reserves of the Karachaganak gas condensate field in Kazakhstan, estimated to hold 16 trillion cubic feet of gas and 2.4bn barrels of condensate.

The two have yet to obtain a solid production sharing agreement, however, and their Russian partner in the project, the gas monopoly Gazprom, has yet to put up its share of the equity. Because Gazprom controls the only existing export route, through Russia, British Gas and Agip cannot afford to go it alone. As a result, the project has been scaled down and risks collapse.

That experience bodes ill for Enron, which signed a letter of intent to develop 15 oil and gas fields in Uzbekistan, with estimated reserves of 20 trillion cu ft, together with Gazprom.

Similarly, Turkmenistan boasts the world's third largest gas reserves but production has dropped sharply in recent years because Gazprom has blocked the only export route to western markets. Unocal and Bridas propose to build gas pipelines to Pakistan, but they would run through war-torn Afghanistan.

Exxon is studying the feasibility of a long route through central Asia to China, and Iran has been trying in vain to find financing for a pipeline through its territory. A fourth option, through the Caspian Sea, Azerbaijan and Georgia to Turkey, has yet to find support among Turkmen officials.

Four of the five central Asian republics boast big gold reserves as well, and western miners have obtained mining licences in all of them, even Tajikistan.

Newmont and Western Mining have been waiting to hear the results of tenders for two mines in Uzbekistan, which would be its second gold project there. The ailing Bakyrchik venture in Kazakhstan has recently been revived with a money injection from Indonesian investors, and the government is planning to offer the giant Vasilkovsky mine for tender as well.

Until that happens, Kyrgyzstan leads the foreign investment pack in the gold sector. Investors include MK Gold of Boise, Idaho, and Canadian Cameco, which has set up a $300m mining venture at Kumtor, assessed as the world's eighth largest gold deposit.

■ **Russia:** by John Thornhill

# Painful progress to capitalism

## Agonising contraction and dynamic rebound exist side by side in Russia's economy

Togliatti is typical of the many Russian industrial towns which sprang up in Soviet times as part of the great communist economic revolution. But the wrenching economic changes its 722,000 inhabitants are now experiencing highlight both the progress and the pitfalls of Russia's transition to a capitalist economy.

The town's economy is still dominated by the gargantuan Avtovaz car plant built in 1970 on the orders of the central committee of the Communist party to provide family cars for the aspiring Soviet worker.

Built in co-operation with Fiat, of Italy, Avtovaz grew rich by manufacturing millions of Zhiguli cars for the Russian market and exporting Ladas to western Europe and to South America.

Togliatti's residents thrived as their cars came to symbolise the seemingly golden economic era of the early Brezhnev years – mythologised by Russia's modern-day communists – when the average comrade's living standards rose every year and the west worried that the Soviet planned economy really would bury capitalism.

But Avtovaz, like much of Russia's Soviet-era industry, has fallen on tough times. The economic sclerosis of the late 1980s and the disruption attending the collapse of the Soviet Union in 1991 devastated many of its markets. The federal government has cut off cheap credits as part of its fierce anti-inflationary policies.

Avtovaz is now in the midst of a severe cash-flow crisis and is desperate for fresh capital to update its manufacturing plant. Seven of its 10 models date back to the 1970s and only three have been designed after 1985. Avtovaz's lagging technology has made it harder to sell its cars abroad while the rapid real appreciation of the rouble since last summer has almost entirely eroded the profitability of its exports.

By conducting a fierce monetary squeeze, defending the value of the rouble, and liberalising trade, the government has made life far tougher for unreconstructed industrial behemoths such as Avtovaz and sparked anger among the plant's 100,000 workers, many of whom backed Vladimir Zhirinovsky, the inflammatory nationalist, in December's parliamentary elections.

But the government's economic policies have also succeeded in stimulating competition and unleashing the dynamic potential of other parts of Togliatti's economy, which is visibly transforming the streets of the sprawling industrial town.

Mercedes cars and Toyota jeeps now cruise Togliatti's streets – in an uncalculated insult to Avtovaz – and the shops are stocked with western consumer goods. Queues, once a feature of every Russian town, have simply disappeared.

As parts of Russia's economy continue their agonising contraction others are showing dynamic rebound. An economic report prepared by the local town administration testifies to the vibrancy of many of Togliatti's privatised medium-sized manufacturers, particularly in the chemicals industry, which strongly increased their exports last year.

> The OECD cast severe doubt on the official figures

"The economic situation in the city in 1995 was sharply different from that of 1994 which was marked by deep depression. If in 1994 the fall in industrial production amounted to 21 per cent, then in 1995 growth in industrial production reached 18.2 per cent," the report stated.

The number of enterprises registered in Togliatti grew by 16.5 per cent last year to 11,462 and the administration received 2.4 times more tax revenue in 1995 than in the previous year, enabling a gradual improvement in the town's devastated municipal services.

While such reports testify to the turn-around that has already taken place in some parts of Russian industry – albeit from a depressed base – they take almost no account of Russia's unrecorded shadow economy, which some experts estimate now accounts for more than 50 per cent of all economic activity.

A new breed of ruthless entrepreneurs has emerged, liquidating many of the assets of Russia's old state industries by buying – or stealing – tradeable goods and selling them wherever they can. Much of this money may have been salted away into Swiss bank accounts and London property, forming part of the estimated $50bn of flight capital – although at least some of this appears to have been re-invested in legitimate businesses in the domestic economy.

Such diverse activity makes a mockery of the picture of the economy gained solely from official statistics. A report, prepared by the Organisation for Economic Co-operation and Development last year, cast severe doubt on the official figures which suggested that Russian GDP had fallen by 50 per cent since 1991 – compared with a 31 per cent decline in US GNP at the time of the Great Depression.

"While industrial output appears to have been halved since 1992, real disposable income has doubled," the report said. "As the difficulties in measuring expenditure are presumably smaller than in measuring output, this comparison also strongly suggests the fall in output has been significantly exaggerated."

The OECD estimates that the strength of the private economy will enable Russian GDP to grow 2 per cent this year – in the absence of serious political shocks – and more rapidly thereafter.

As the battle for macro-economic stabilisation appears to have been won – at least this side of June's presidential elections – attention is now focusing on micro-economic reforms to help smaller companies to thrive. The most pressing problem is a shortage of funds given the cripplingly high interest rates that prevail in Russia, the difficulty of obtaining long-term bank loans, and the near-impossibility of raising equity finance.

The European Bank of Reconstruction and Development is attempting to support the development of small and medium-sized regional businesses by launching 11 regional venture funds. The project, backed by $312m of equity finance and $208m in grant finance, will attempt to target privatised companies with a strong position in the domestic market.

The minimum investment will be $300,000, going up to a maximum of $3m.

"People approach us from the nether regions of Russia and say they want financing. Some of them are pure pipe dreams, but many have well-worked plans yet desperately need to find working capital," says Lou Naumovski, head of the EBRD's Moscow office.

■ **EBRD:** by Anthony Robinson

# A paragon of propriety

## One of the EBRD's functions is to provide comfort in potentially risky or innovative deals

When the dust had settled on the row over the *"glistening bank"* spending spree which cost Jacques Attali his job as the first president of the European Bank for Reconstruction and Development (EBRD) in 1993, Vaclav Klaus, the Czech prime minister, laconically commented that that was what happened when you put a French socialist intellectual in charge of a bank.

Since then this somewhat inaccurately named institution which counts the US, Japan and Mexico among its 59 shareholders and is involved in projects throughout central Asia (as well as Europe and Siberia) has developed into a paragon of banking propriety. Original doubts about the need for another regional banking institution, and irritation among the commercial and merchant banking fraternity at the emergence of a potential new competitor, have dissipated to the point that shareholders are expected to approve a doubling in capital to Ecu20bn ($25bn) at this year's annual conference.

Much of the credit is due to Jacques de Larosiere, the precise and immensely diplomatic president for the past three years and his two faithful lieutenants, Ron Freeman, a veteran New York investment banker with nearly 20 years' service at Salomon Brothers under his belt, the first vice-president of banking, and Guy de Selliers, the Belgian deputy vice-president of banking, who have both been at the bank since the start.

Under the direction of Mr de Larosiere, a former managing director of the International Monetary Fund and governor of the Bank of France, the EBRD has: cut overheads from nearly 30 per cent to 24 per cent of operating costs; sharpened the focus on lending to the private sector; sought out bankable projects in all the countries of operation; and increased the leverage of the bank by providing capital to the region's struggling banks and capital markets.

Jacques de Larosiere: precise and immensely diplomatic president

By subscribing to the capital increases of banks which have gone through the consolidation and restructuring process, the EBRD helps indigenous banks provide the retail and corporate lending to small and medium-sized enterprises which the EBRD cannot make directly because of its cost structure and lack of detailed local market knowledge.

In recent years the EBRD has steadily, and profitably, added to its portfolio of bank shares as the region's banks have come out of a traumatic period of bad debt write-downs and sought to build up their capital and their lending to private business. But the bank has also invested in a rich variety of often risky and innovative ventures from gold mines to shipping finance and is now gearing up for the complex infrastructure and energy deals which will come to fruition in the 21st century.

Mr Freeman sums up the bank's attitude in a couple of one-liners: "When we're not additional we let somebody else do it. If a deal is not sound we don't do it." He also makes clear that the bank is not a soft touch. Neither is it cheap. "The most important thing about this institution is that we keep the price high. We're not cheap. Since day one I've tried to keep margins at what the market rate would be, if there were a market. In fact, we keep spreads higher than that to encourage commercial banks to come in with us, and encourage our clients to re-finance with ordinary commercial banks as soon as possible."

"Our clients complain that we're too expensive," he explains. "But article 13.1 of the bank's charter says 'the bank shall apply sound banking principles to all its operations'. Article 13.7 says 'the bank shall not undertake any financing or provide any facilities when the applicant is able to obtain sufficient financing or facilities elsewhere on terms and conditions that the bank considers reasonable'."

With a code like this Mr Freeman and his banking team are able to approach commercial banks in a straightforward manner. "Barclays came into one of Central Asian gold projects because they loved the spreads which accurately reflected the risks," he recalls. "Offer banks a deal in Albania and they may turn up their nose. Offer a deal at Libor plus 350 and they start to sit up and take notice," he adds.

Mr de Selliers points out that one of the bank's functions is to provide comfort in potentially risky or innovative deals. "We can and do systematically make loans and take equity risks in a region still perceived to be risky," he says. "We are not like the World Bank or other IFI's which have to establish their priorities around the world. We can invest and take risks in this area because that is what we were specifically set up to do, and because we enjoy preferred creditor status."

The enthusiastic Belgian banker likes to see the EBRD as a pioneer, forever thrusting into new areas and helping to reassure nervous members of the baggage train. "We always go in first on the lending side and our involvement provides the comfort which commercial banks and investors need to get involved in projects which are otherwise too risky or too costly. When commercial banks come into projects with us they share our preferred creditor status and are therefore exempt from the mandatory provisioning requirements linked to country risk," he says.

This pioneering role gets safer over time. "In finance the bigger you are the more clout you have. We now have a critical mass of lending in most of these countries so we can be tough with governments or borrowers. We insist on full disclosure and full access to shareholders. We also insist that companies deposit registers with independent registrars.

"In Russia, for example, if we can't find out who the shareholders are in client companies we don't lend. If it suddenly becomes difficult to get the information we need alarm bells start to ring," Mr de Selliers adds.

Tough conditions are sometimes easier for nervous, recently created companies to accept than the old established multinationals. The bank lent to Fiat, General Motors and other big names when few other investors were interested and only the multinationals wanted to move fast into the hitherto virgin territories for mass consumption products. "But GM was shocked at the detailed demands we made of them before agreeing our first loan to them in 1992 for their plant in Hungary. Later, when they felt more comfortable about their very profitable Hungarian investment, they repaid our loan early," Mr de Selliers recalls.

One of the constant themes in bank publications, such as the transition report prepared by Nick Stern, the chief economist and his team, is that the "fast-track" reformers of central Europe are increasingly able to raise capital directly from commercial banks and international capital markets. This permits the EBRD to venture further east into less charted territory and take on more problematical deals. But in all cases the "additionality" rule applies to leave purely commercial deals to the normal channels and the commercial banks.

"We take on 'double B' grade risks. When the country risk declines, as in the Czech Republic, we take on riskier projects and those which are difficult to arrange because they have longer maturities or require greater equity. In risky countries, by contrast, we only go for the most solid of projects," Mr Freeman says. "When the last country has gone into the 'single A' risk category we can close up shop, repay our capital, pay up our dividend and look for another job. But that won't be some while yet."

In the meantime, the bank, with its future lending capacity assured by the expected capital increase, will continue to grow in value as a repository of information, experience and data about the region. Its contribution to the accumulated financial and political know-how of the City of London, and its magnetic power as bringer of deals to the City, will grow with time. But thus far the full potential of its London base has yet to be fully realised, says Mr Freeman.

■ **Politics of transition:** by Richard Rose

# Former Soviet empire rules out old regime

## The closer a country is to the EU, the greater the tendency to support democracy

Six years into the transition from communism, support for democracy is high in central and eastern Europe, while *remaining low in the former* Soviet Union, according to the latest round of new democracy barometer surveys of public opinion in post-Communist countries*.

In the Czech Republic, Slovakia, Hungary, Poland, Slovenia, Bulgaria and Romania, 65 per cent on average approve the new political regime. By contrast, in Russia, Belarus and Ukraine, the average support for the new regime is only 32 per cent.

The closer a country is to the boundaries of the European Union, the greater the tendency to support democracy. Support in Poland is exceptionally high, up 24 per cent since 1991, while in Russia the proportion giving a positive rating to the post-communist regime has fallen to 28 per cent. Hungary is exceptional, being less anti-communist because its past regime was relatively liberal.

Only one in six of the nearly 10,500 people interviewed across the former Soviet empire at the end of last year would endorse the return of a communist regime in central and eastern Europe. Nominally left-wing, ex-communist parties in this region are mainly led by political opportunists from *the old party who have* responded to new incentives by *becoming social democratic in* outlook. Democracy is becoming consolidated as losers as well as winners accept free elections as the right way to choose a government.

In much of the former Soviet Union, however, political values are different. In Russia, 39 per cent would welcome the return of a communist regime, *reflecting a nostalgia for the* stability of the pre-perestroika Soviet Union. *This is 12 per*centage points higher than spring 1994. In Belarus, almost half would welcome a return to communist rule.

The longing for the past and the lack of experience with pluralism means that former Soviet politicians have fewer *restraints upon old-style* authoritarian behaviour. In *this area regimes have not yet* become consolidated democracies in which all parties competing for power play by the rules of the game.

The powers of the president may be what that individual asserts, rather than what a constitution confers.

The poll results show that economic conditions are much *over-rated as an influence sup*porting democracy. The new political systems are most appreciated for winning freedom from an overpowering state, including the right to say what one thinks, freedom of religion and not needing a party card to advance profes*sionally or to get better accom*modation. A weak, even inef*fectual regime is preferred to* an over-powerful state.

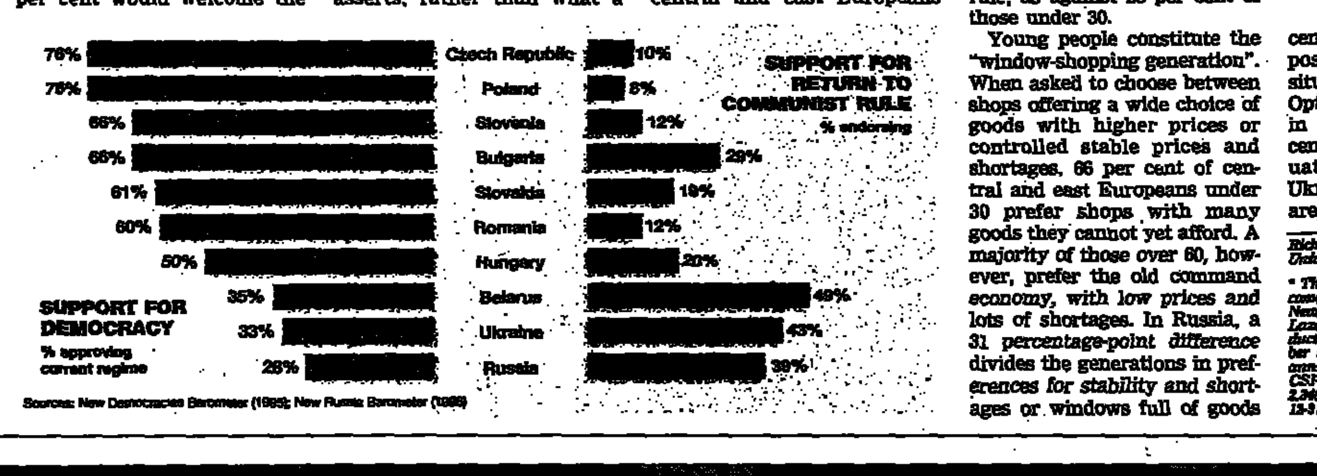
Fear of unemployment and inflation have affected every post-communist society. Asked which is the bigger threat to their family, three quarters of central and east Europeans worry more about inflation than unemployment. This is also the case with three fifths *of people* in Russia, Ukraine and Belarus. Concern about *inflation is* high where *it* has been low, such as in the Czech Republic, and where inflation has been rampant, as it has been in the Ukraine.

The older generation tended to adapt to life under commu*nism*, but *younger people show* greater support for change and *particularly in* the former Soviet Union. In Russia, more than a third of those under 30 approve the new regime, compared to a fifth over 60, while 62 per cent of those over 60 endorse a return to communist rule, as against 28 per cent of those under 30.

Young people constitute the "window-shopping generation". When asked to choose between shops offering a wide choice of goods with higher prices or controlled stable prices and shortages, 66 per cent of central and east Europeans under 30 prefer shops with many goods they cannot yet afford. A majority of those over 60, however, prefer the old command *economy, with low prices and* lots of shortages. In Russia, a 31 *percentage-point difference* divides the generations in preferences for stability and shortages or windows full of goods still too expensive to buy.

Support for democratic governance is prompted by rejection of the past while the market economy not only gains *support from* the minority whose standard of living has *already risen but also* from those optimistic about the future. Overall, 72 per cent of central and east Europeans are positive about the economic situation in five years' time. Optimists form a minority only in Russia, where only 40 per cent expect their economic situation to get better and in Ukraine where only 41 per cent are optimistic.

> Economic conditions are over-rated as an influence supporting democracy




Sources: New Democracies Barometer (1995); New Russia Barometer (1996)

*Richard Rose is professor of politics at the University of Strathclyde.*

** The survey data summarised above comes from the fourth annual 10-nation New Democracies Barometer of the Paul Lazarsfeld Society, Vienna, which conducted 10,441 interviews between 25 October and 18 December, 1995, and the fifth annual New Russia Barometer of the CSPP, University of Strathclyde, with 2,340 person interviewed between January 13-31 this year.*



هكذا من الأصل

## BULGARIA

# Opportunity beckons for energy crossroads

**Sofia, host to the EBRD conference, will try to convince western investors that involvement in Bulgaria makes good economic sense, writes Anthony Robinson**

This year's orthodox Easter provides Sofia, the Bulgarian capital at the foot of the snow-capped Vitosha mountains, with a probably unrepeatable chance to attract the attention of thousands of potential investors and foreign bankers. Sadly, the opportunity presented by the annual conference of the European Bank for Reconstruction and Development (EBRD) is unlikely to be fully grasped.

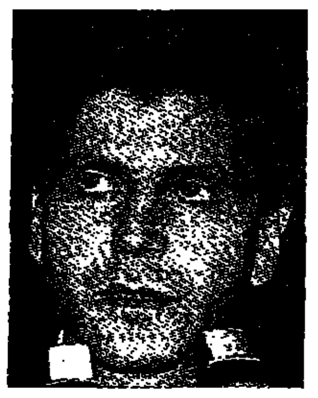
For this mainly Slav country of 8.4m people surrounded by Greece, Turkey, Macedonia, Serbia and Romania, which is growing in strategic importance as a transit route for oil and gas from Russia and Central Asia, has been hard pressed to make the institutional and cultural changes required to make a successful transition from Soviet-style centralism to open markets and politics.

The reasons are rooted in the history and culture of a country liberated from nearly 500 years of Turkish rule a century ago with the help of a Russian tsar, Alexander II, and then converted into the most integrated of the Comecon and Warsaw Pact countries after 1945.

But Bulgaria's difficulties also reflect another isolation, that created by the wars in Yugoslavia, the UN trade embargoes on Yugoslavia and Iraq, another important former trading partner and creditor, and by the humiliating visa requirements which restrict the entry of Bulgarian (and Romanian) citizens, into the Schengen visa-free travel area and into other EU countries.

Under the circumstances the survival of democracy and social order, a continued faith in Europe, the resigned acceptance of lower living standards and Bulgaria's constructive diplomacy in a troubled region have been under-appreciated achievements.

Early hopes that the fall of the communist dictator Todor Zhivkov in 1989 would lead to rapid integration into Europe, prosperity and democracy had faded long before the first non-communist government, formed by the fractious and inexperienced Union of Democratic Forces (UDF), collapsed at the end of 1992 after only 11 months in power.



Zhan Videnov: works long hours poring over details of legislation

After a two-year interregnum under a caretaker government of technocrats, the Bulgarian Socialist Party (BSP), heir to the former Communist party, swept back to power at elections in December 1994.

The new government, led by Zhan Videnov the 37-year-old prime minister, has to cope with a country distorted by nearly 50 years of communist rule and demoralised by four years of drift. It also has to find solutions for an under-capitalised and largely obsolescent state-dominated economy devastated by the collapse of the Comecon trade pact and compounded by virtual isolation from western European markets. Against this bleak background last year's export-led 2.5 per cent growth and declining inflation were a rare and welcome sign that the worst might now be over. But to ensure that this is so the cyclical upturn has to be backed up by implementation of long promised privatisation, bank restructuring and other institutional reforms.

The BSP overcame widespread suspicion to win the 1994 elections by projecting itself as a competent, modern party and highlighting the youth and linguistic skills of its new leaders, rather as Tony Blair has sought to re-fashion the image of the deeply conservative British Labour Party.

In practice, Bulgaria's young men have proved to be old before their time, deeply influenced by the intensive Komsomol training to which the ambitious were subjected in the communist years. The brightest spark in an otherwise dour government appears to be Mrs Irina Bokova, the deputy foreign minister who brings enthusiasm and energy to her task of preparing Bulgarian laws and institutions for eventual integration into the EU.

Mr Videnov works long hours poring over details of legislation while real power is perceived to lie in the hands of shadowy financial-industrial groups as well as old-time power brokers, such as Andrei Lukanov. Mr Lukanov, a former communist prime minister, now heads Topenergy, the powerful and controversial Russian-Bulgarian gas joint venture which has been set up to supply 29bn cubic metres of Russian gas annually to Turkey and the Balkan states early in the next century.

The government was recently chastised by President Zhelyu Zhelev, for its "Stalinist" methods and secrecy. Businessmen and bankers say it is hopeless at public relations, hardly bothers to explain to the media or gather public support for its policies and appears not to have grasped the urgency of the need for co-operation with international financial institutions or to actively woo foreign investors.

"The prime minister acts as if he were Vaclav Klaus of the Czech Republic. But Mr Klaus has a dynamic, reformed economy behind him. Mr Videnov does not." Ivan Kostov, the UDF leader and former finance minister complains A private banker who has known the prime minister since childhood has a different perspective. "No-one can buy him. So he has no friends, not even among the old guard because he refuses to act towards them as a good pupil."

In a country where the middle class, the institutions of democratic government and the law are weak, the result is a government at the mercy of powerful domestic and foreign interest groups. Meanwhile, the main opposition grouping, the UDF, which is headed by Ivan Kostov a former UDF finance minister, is struggling to restore its credibility as an alternative government after its incompetent first experience of power following the collapse of communism.

The socialist party and its allies in the Democratic Left government won 43.5 per cent of the vote in the December 1994 elections and slipped only marginally in the last year's local elections where the UDF vote also dropped slightly from 24 per cent at the general elections. With the next general elections still three years away political attention is focusing on what is shaping up as a bruising presidential election campaign.

Mr Videnov wants to emulate the Polish example and bring the presidency into socialist hands by wresting power fromPresident Zhelev, a former academic and founder member of the opposition UDF. Mr Videnov's best chance of success lies in the decision of the UDF to put up its own candidate for the presidency rather than support Mr Zhelev's bid for a second term.

Mr Zhelev alienated many erstwhile allies in 1992 by being instrumental in the downfall of the UDF government. He is strongly anti-communist, an outspoken supporter of Bulgaria's membership in both the European Union and Nato, and a fierce critic of the government for its ambiguity with regard to Nato and for allegedly opening up Bulgaria to a restoration of Russian suzerainty.

Russian attitudes to "little brother Bulgaria" are summed up in a popular ditty – *kuritza ne ptitza, Bulgaria ne zagranitza*. Translated it means "a chicken is not a bird and Bulgaria is not abroad". There were echoes of old attitudes last month when Boris Yeltsin, the Russian president, invited Bulgaria to join Belarus, Kazakhstan and Kyrgyzstan in the new alliance Russia is building to replace the old Soviet Union. More sinister rumbles came from General Grachev, the Russian defence minister, during a visit to Nato headquarters in January. He warned that Russia would deploy military bases in Bulgaria if Nato expanded to Poland, without even bothering to inquire whether this was acceptable to the "host" country.

Russia's influence in the wider Balkan, Black Sea and Caspian region is almost certain to grow as its economic strength and self-confidence return. Oil and gas will be more important than fleets and rockets. Bulgaria itself is destined to become an increasingly important transit country, not only for Russian energy exports, but also for the energy-related and other exports. With the fighting in former Yugoslavia hopefully over, the easiest and cheapest routes to central Asia and the Middle East from western and central Europe run to Varna and Burgas for transhipment across the Black Sea to Ukraine, southern Russia, and ports such as Poti on the Asian coast.

What Bulgarian politicians, bankers and businessmen will try to put across at the EBRD conference is the view that a big increase in western investment and involvement in Bulgaria makes good economic sense. They will also argue that it is the best way to ensure Bulgaria's continuing independence and satisfy its aspirations for the soonest possible integration into an enlarged Europe to which most Bulgarians still look for future security and prosperity.

Early morning in Sofia: the Bulgarian capital plays host to the conference of the European Bank for Reconstruction and Development this month

**Economy:** by Anthony Robinson

# Escape from the doldrums

## Rising foreign trade and improved industrial output have given the economy a boost

The rising tide of world trade which promoted export-led growth throughout much of former communist Europe last year also helped lift the Bulgarian economy from the doldrums. It came just in time for the incoming socialist government to claim the credit for 2.5 per cent growth last year, the first economic good news in years.

As the most closely integrated of all the Soviet satellite countries, Bulgaria suffered worst from the collapse of Comecon, the Soviet-era trade organisation, with which it carried out 80 per cent of its trade. The economy was also hard hit by the UN-imposed trade embargo on neighbouring Serbia and the similar embargo on Iraq. Bulgarian arms factories were big suppliers to Iraq and construction and food companies were also active. The UN-embargo on Iraq froze the oil exports with which Iraq had promised to pay its outstanding $2bn debt.

Looking ahead, however, Russian plans for a big growth in gas exports through Bulgaria to the Balkan countries and Turkey, and a similar plan to transport oil from central Asia through the port of Burgas and a 320km pipeline to the Northern Greek port of Alexandroupolis, will involve large-scale foreign investment, which has amounted to little more than $500m over the past five years. Both deals should provide substantial transit fee income and underpin Bulgaria's strategic importance in the Black sea and Caspian region.

Despite the UN embargo which cut the direct rail, road and river routes through Yugoslavia to western Europe, Bulgarian exporters have managed to shift trade to EU and OECD markets, including Turkey, and to Greece, helping to generate a 25 per cent rise in foreign trade last year. Greece provides the only physical link with the European Union, with which Bulgaria has an association agreement.

Last year exports, on a customs basis, surged to $4.98bn from $4bn, closely matched by imports which reached $4.92bn compared with $4.16bn a year earlier. The surplus from trade on a payments basis was considerably higher than appears from the customs figures, however. The banking system picked up an estimated $1bn of additional payments, mainly connected with high-margin "unofficial trading", (the euphemism for smuggling and sanctions-breaking with Serbia), and private trade with Ukraine and the Caspian region, where entrepreneurial Bulgarian traders are active.

Markets in OECD countries now account for around 50 per cent of total trade, although heavy dependence on Russian oil and gas mean that 40 per cent of imports still come from the former Comecon area.

Industrial output, which rose a revised 8.5 per cent in 1994 increased strongly again last year, with output from the still relatively small private sector an estimated 50 per cent higher. At the same time, inflation, which averaged 62 per cent over the year, dropped to 32.9 per cent by December.

But, economists believe that the economy will be hard pressed to sustain economic growth for long without a sharp rise in domestic and foreign investment, and a series of structural reforms, of which the most important is reform of the banking system. Western bankers estimate that the banking system has a negative net worth of $1.3bn, or around 10 per cent of GDP.

This is aggravated by a high volume of inter-enterprise debt and a culture of non-payment by under-capitalised and frequently obsolescent state enterprises. Years of poor banking supervision, sometimes corrupt privatisation, and delays in introducing long promised banking reforms have led to cartelisation of the economy between powerful groups with political connections who are able to disregard weakly enforced laws.

The result has been an accumulation of losses at an enterprise level and a banking system which urgently needs remedial action. The IMF, which together with the World Bank, has been pressing for a rapid decision on a radical restructuring of the banking system is urging the government to consolidate the banks from 43 to no more than 15 private and five state-owned institutions.

Some measures have been taken already to tighten up banking supervision and Government action on bank restructuring is expected shortly, possibly before the EBRD conference in mid-April. The World Bank has been withholding a much needed sectoral adjustment loan, which will be used largely to help recapitalise restructured banks, and the IMF has held back agreement on an expected $360m standby agreement, pending a credible government restructuring programme.

> Bulgaria suffered worst from the collapse of Comecon

In the meantime, the economy is saddled with punitive interest rates and a virtual drying up of commercial bank lending after the central bank raised its discount rate by 8 percentage points to 42 per cent at the beginning of February and again to 49 per cent a month later.

Drastic action was required to stem a haemorrhage of reserves which declined from $1.4bn in November to $904m at the end of February. With interest rates high, access to medium term credits virtually unattainable, and a continuous flow of restrictive rules and taxes, Bulgaria's resilient but sorely tested private sector entrepreneurs question the socialist government's proclaimed commitment to creating a level playing ground for the private and public sector of the economy.

There are signs, however, that the government is gearing to strengthen the macro-economic stability itself needed to create the conditions for sustainable growth. It recently announced a sharp rise in energy prices from April and another increase in September to eliminate the heavy losses of the energy sector.

It is also pressing ahead with a mass privatisation programme involving 1,060 out of of 5,500 enterprises still in state ownership. Kalin Mitrev, director of the Mass Privatisation Centre, says "those involved are the better enterprises with roughly 56 per cent of the total asset value of the state sector".

Meanwhile, the government's privatisation agency, headed by Mr Veselin Blagoev, is pressing ahead with the cash privatisation of bigger companies valued at more than $1m. Cash privatisation, which includes the projected sale of more than 25 per cent of the state owned Bulgarian Telecommunications Company is primarily designed to raise revenue and attract foreign investment.

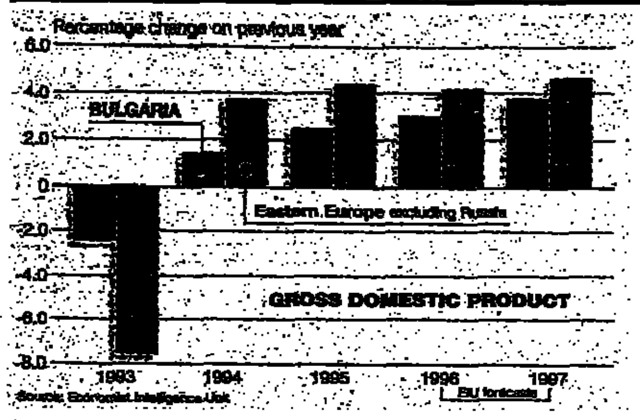
But pressing ahead with privatisation after long and damaging delays should also broaden and strengthen a private sector and encourage foreign investors who require a set of known and enforceable rules before making their much needed contribution to realising the full potential of a strategically placed and fertile country, with a skilled labour force and excellent tourist potential.

**Economy: forecast summary[1]**

| | 1994[2] | 1995[3] | 1996[3] | 1997[3] |
|---|---|---|---|---|
| Real GDP | 1.4 | 2.5 | 3.0 | 3.8 |
| Industrial output | 8.5 | 4.6 | 4.0 | 4.5 |
| Agricultural output | 2.5 | 2.0 | 2.0 | 3.0 |
| Fixed investment | 1.4 | 3.0 | 4.0 | 4.5 |
| Consumer prices | 96.2 | 62.0 | 28.0 | 25.0 |
| Exports f.o.b.[4] ($m) | 4,159 | 4,991[5] | 5,340 | 5,900 |
| Imports f.o.b.[4] ($m) | 4,007 | 4,608[5] | 4,100 | 5,700 |
| Current account balance ($m) | 146 | –75 | –170 | –300 |

[1] % change on previous year unless otherwise indicated; [2] Actual; [3] EIU forecasts; [4] Customs-based; [5] EIU estimate

Source: Economist Intelligence Unit






Lyubomir Filipov: recently appointed governor of the National Bank of Bulgaria

**Banking:** by Anthony Robinson

# Weakest point in the economic picture

## Reforms of the banking sector and increased supervision have been delayed

A long-festering crisis in the Bulgarian banking sector came to a head earlier this year when the central bank was obliged to close or take over some of the most serious loss-making banks and raise interest rates to stave off a run on reserves and an incipient currency crisis.

To the frustration of the World Bank and the IMF, however, the government has delayed implementing a long-discussed bank restructuring programme designed to close or consolidate insolvent banks and strengthen supervision. "They know what to do but ministers can't agree on the details," one frustrated banker said only two weeks before the EBRD annual conference was due to bring thousands of international bankers to Sofia.

A shaky banking sector and an inability to finance domestic investment or attract foreign investment are the weakest points in the Bulgarian economic picture, and they are closely related. "The export-led upturn in the economy last year needed medium-term investment to sustain it. But the banks are unable to supply medium or long-term finance," says Lyubomir Gubinsky, chairman of Trade and Savings Bank (TSB) one of a handful of private banks which remains profitable and is not weighed down by non-performing loans.

"Bank consolidation would be a good idea if the government had a clear strategy. But it doesn't," he says. "Instead the government introduces retroactive legislation, such as the latest personal income tax law approved in March but retroactive to January, and insists on a division between state and private banks when what is needed is a clear distinction between good and bad banks," Mr Gubinsky adds.

Despite the difficult environment, however, Mr Gubinsky believes that the longer-term opportunities for profitable investment are great. "We are trying to establish good relations with Hermes and Coface and other export credit institutions and become one of the main intermediaries for long-term money coming to Bulgaria," he adds.

The banks which have a chance of surviving have all been very cautious and clever in finding profitable niches. Varna-based ExpressBank, one of the still profitable state-owned banks, has, for example, helped to revive the Varna shipyards by providing both working and medium-term financing, linked to hard currency payments from the yard's foreign clients.

But the inability of the banking system to provide credit for investment, and the low level of foreign investment at around $500m, has created an opportunity for less conventional financing, particularly leasing.

Dimitar Tadarakov, the director-general of Bulgarleasing, whose 409 shareholders amount to a roll call of Bulgaria's most active private and state companies, claims to have invested more than $235m over the past 10 years, mainly through leasing modern plant and equipment to Bulgarian companies, but also in car and other consumer leasing activities.

Despite the best efforts of Bulgaria's new financiers to create a more efficient capital market and banking system, however, drastic reform of the banking system is needed. This became clear early in February when a sharp fall in the price of Bulgarian Brady bonds and leaking foreign exchange reserves forced the central bank to raise interest rates to punitive levels to stabilise the currency.

Studies by the international financial institutions indicate that the banking system as a whole has negative net worth of around $1.3bn, roughly 10 per cent of GDP. This reflects the crippling level of bad loans in the portfolios of most of the 11 state and more than 35 private banks. "The crisis in the banking system is a reflection of the insolvency of so many Bulgarian enterprises," bankers say.

An estimated 70 per cent of the bad debts are held by the 11 state-owned banks. But the profligate issuance of banking licenses over the past five years, which has now been curbed, combined with a lack of effective supervision, has also led to a culture of insider loans, non-payment and other abuses in many of the private banks created over the past five years.

Lyubomir Filipov, the recently appointed governor of the National Bank of Bulgaria, says that in September last year only nine out of 47 banks satisfied the 8 per cent capital adequacy ratio laid down by the Bank for International Settlements. The number has fallen since, he adds.

"The issue is not how to reach BIS levels of capital adequacy. It would be sufficient for the central bank to set a much lower, but more realistic target, even a zero capital adequacy ratio to begin with, provided that the requirement was strictly enforced," one banker commented. "But that requires a strong central bank which is not currently the case," he adds.

The list of solvent banks, or state banks which the government may be able to restructure and re-finance but cannot close, is a short one and it is not published. But bankers say the number of active banks has shrunk dramatically in recent weeks. Ivaylo Mutafchiev, the 33-year-old executive director of First Investment Bank (FIB), says he only works with three or four private banks and a small number of state banks.

FIB is one of a small number of private banks in which the EBRD is involved. The EBRD has taken an equity stake in BNP-Dresdner (Bulgaria), one of five western banks operating in the country, and has committed Ecu3m ($3.75m) to the Bulgarian Investment Bank. It is now preparing to take an equity stake in FIB, which is currently seeking $7.5m medium-term EBRD financing.

"We can only get one to three-month funds through the interbank market and three-month re-financing from the central bank. That is why we are looking for a 3-5 year credit line from the EBRD to help us provide the medium-term investment finance so badly needed here," Mr Mutafchiev explains.

**Foreign trade and finance:** by Anthony Robinson

# Alarm bells ring in Sofia

## Higher interest rates have placed a question mark over the ability to meet tight restraints

The busy Black Sea ports and long lines of trucks heading for the borders along pock-marked highways have been particularly good news for those sectors of the economy hardest hit by the earlier collapse of trade with Comecon and the arms business.

Strong global demand for basic steel and chemicals last year helped Bulgaria's biggest companies to boost output after years of financially ruinous low capacity rates. Beneficiaries included Neftochim, the Burgas-based refinery and petrochemical complex, the Devnya chemical complex and Sodi, the state-owned soda ash complex at Varna which exports 80 per cent of its output. Loss-making steel plants, such as the Kremikovtzi steel complex, also fared better.

However, the recovery in output, exports and incomes last year was simply not enough to outweigh the cumulative damage caused by years of under-investment and the slow pace of enterprise restructuring and financial sector reform in an economy saddled by high levels of both foreign and domestic debt.

The foreign trade picture also looks less settled this year with a downturn in the important German market and slower growth in overall world trade.

With help from a weaker currency, exports should grow between 8-10 per cent. But earlier predictions of an overall 3 per cent growth rate look optimistic in the light of the banking crisis which erupted in the first quarter of the year and sparked a run on reserves and a sharp drop of confidence in the currency and in Bulgarian Brady bonds.

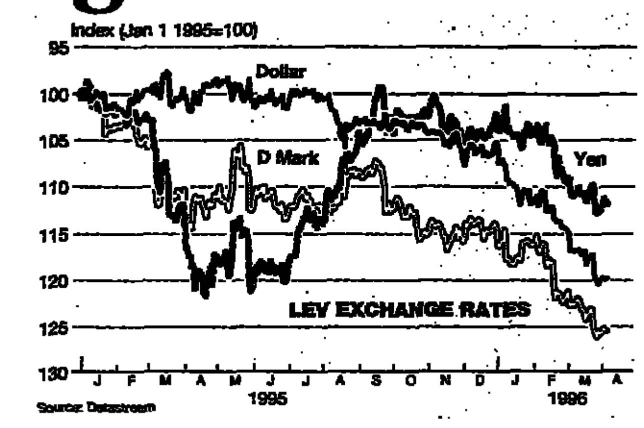
After defaulting on its foreign debt in 1990 Bulgaria returned to international financial markets following the June 1994 London Club agreement.

The agreement reduced Bulgaria's $8.16bn debt to western commercial banks by some 47 per cent. As part of the deal foreign investors were allowed to use Bulgarian Brady bonds to partially finance equity swaps or participation in privatisation deals.

Despite re-scheduling, however, Bulgaria remains saddled with one of the highest per capita foreign debts in the region.

Dimitar Kostov, the finance minister, says Bulgaria will have to pay $1.25bn in capital and interest on the country's $11.5bn foreign debt this year and $1.6bn in 1997. An initial payment of $450m in January was a factor in the outflow of reserves which led to higher interest rates in February and started alarm bells ringing both in Sofia and in foreign financial markets.

Meanwhile, higher interest rates have sharply raised the cost of financing the 373bn leva ($460m) domestic debt and place a question mark over the government's ability to adhere to the relatively tight budgetary restraint needed to keep inflation on a declining trend.




Source: Datastream

■ **Varna and Burgas:** by Theodor Troev

# Bustle returns to two cities

## Good access to a wide region is winning investment for the two Black Sea ports

Bulgaria's once prosperous Black Sea ports of Varna and Burgas are recovering from years of neglect and decline, and so are the shipyards, refineries and chemical plants which are fuelling the export-led upturn in the economy.

The plaster is flaking from many of the elegant 19th century villas in the ancient Thracian-founded city of Varna and the streets are potholed. So is the elevated highway over the port canal and the entire 130km length of the highway south to Burgas, the result of years of neglect of basic infrastructure maintenance throughout the country.

But some villas returned to their original owners have been sold, or leased, to private banks and companies and been renovated.

Civilised new venues, such as the Lauta cafe run by Ivan and Margarita Botev near the high-rise Black Sea Hotel, reflect the re-birth of private enterprise and a re-awakening civil society of private clubs and hobbies.

Despite low wages, unemployment and an undercurrent of petty crime, car theft and protection rackets, the third largest city in Bulgaria is unmistakeably on the mend.

Captain Stoljan Paunov, director-general of Varna port, which has the capacity to handle 10m tonnes, says 1995 was the best year since 1989, when 7.5m tonnes of dry cargo passed through the port. An ambitious development master plan, which the EBRD helped to finance, calls for new container and grain terminals. In 1995 throughput rose to 5.25m tonnes from 4.5m tonnes in 1994, and the volume of cargo is expected to exceed 6.25m tonnes this year, despite a slow start.

The growth is partly due to the recovering trade across the Black Sea to Ukraine, southern Russia and the Georgian port of Poti. The latter is re-establishing itself as a transit port for cargoes to the Caucasian and Caspian regions and to Iran.

Varna runs regular ro-ro ship sailings to the Ukrainian port of Odessa and a four times weekly rail ferry service to Ilichevsk.

It also has regular services to the Russian port of Novorossyisk and has just doubled the formerly once weekly sailing from Varna to Poti.

Foreign investors are starting to target the port cities.

But a new $7.5m Rover car plant, established in Varna with a capacity to assemble up to 10,000 Maestro cars and vans a year, is due to close in May with Rover blaming a lack of promised government orders. Fierce competition from cheap Russian Ladas and Czech Skodas in a generally depressed car market also hit the plant.

Meanwhile, a combination of new management, a creative working relationship with the locally-based ExpressBank and rising orders for new ships, has created a small miracle at the Varna shipyards. It is currently building seven ships worth nearly $120m and has a full order book until the end of 1997. Two years ago the over-staffed, inefficient state-owned yard was heading for bankruptcy or a government bail-out.

Outside the port, in Varna's excellent natural harbour sheltered by a wide bay of limestone cliffs and sandy beaches, ships wait to load fertilisers and other chemicals for export from the Devnya chemical complex, or to enter the flourishing ship repair yard.

It is a similar story in Burgas, the country's biggest port, which is destined to become a key link in a Russian-Bulgarian-Greek project to build new oil handling and storage facilities for oil from central Asia. The oil will be shipped across the Black Sea in tankers from the Russian port of Novorossyisk to Burgas and then pumped down a 300km long pipeline to the northern Greek port of Alexandroupolis.

The go-ahead for the estimated $1bn pipeline project depends upon prior agreement by Russia and the western oil companies exploiting Caspian oil on guaranteed pipeline access to the sea, and on the relative shares of companies from the three partner countries.

In the meantime Burgas, which is already the country's main oil port and refinery centre, is fighting to retain its share of trade with Macedonia following the restoration of Macedonian access to the northern Greek port of Thessalonika.

The port is also benefitting from the higher levels of Bulgarian steel, chemical and other exports.

President and Mrs Zhelev at the Rover plant, which closes next month

A new ro-ro terminal is under construction, together with what will be the biggest refrigerated warehouse in the Balkans.

They mark the first stage of a 10-year $250m investment programme, rising to $400m when the new pipeline linked facilities are included.

"Last year was a record year with 8.6m tonnes of general cargo and 9.2m tonnes of liquid cargoes passing through, a rise of 24 per cent," according to Mr Krastmir Stoichev, the port's deputy general director. On the quays in late March container cranes were busily loading general cargoes, steel strip from the Kremikovtsi steel works near Sofia was awaiting export, and a consignment of six narrow gauge diesel locomotives from Romania awaited shipment to Argentina.

Imported cars from India and Taiwan were among a variety of cargoes awaiting transport inland. The bustling ports give clear evidence of an economic revival but its durability remains to be seen.

PROFILE ProSoft

## Keyed up for top conference

Bulgaria's once thriving electronics and computer industry was wiped out when Comecon collapsed and the former Soviet market was flooded virtually overnight with cheaper and more sophisticated imports from the east Asia.

But over the past six years Julian Genov, the 43-year-old president of ProSoft, has built up his computer manufacturing, sales and software company into the Bulgarian market leader with a market share of nearly 18 per cent and a 1995 turnover of $18.9m.

ProSoft's business is to provide high-quality automation equipment, computers and telecommunications facilities to the thousands of emerging private companies in the region.

Against strong foreign competition ProSoft was chosen by the EBRD to set up the entire computer system for the EBRD conference. "We invested £250,000 in fibre-optic cables, which will remain embedded in the Palace of Culture after the conference is over and in computer terminals which have been checked and re-checked by the EBRD", says Mr Genov.

"We did it to attract attention," he adds. "Over the last five years we've re-invested all our profits. That means we have no liquid capital and depend on the banks. What we are looking for is a cheaper source of finance or foreign investors prepared to put on between £1.5m-£2m," Mr Genov adds.

Last year ProSoft increased sales by 40 per cent with less working capital than the year before.

"If we find the capital we need we could double or triple in size very rapidly, not only in Bulgaria but also in Romania, Macedonia, Greece and Turkey where we are about to open subsidiaries," Mr Genov says.

For ProSoft, like so many ambitious private companies, access to capital on reasonable terms is the crucial missing element in a general business environment littered with hurdles, but with virtually unlimited potential.

Anthony Robinson

■ **Topenergy:** by Anthony Robinson

# Russian gas venture evokes controversy

## The energy deal has raised fears that Moscow is about to re-impose its suzerainty

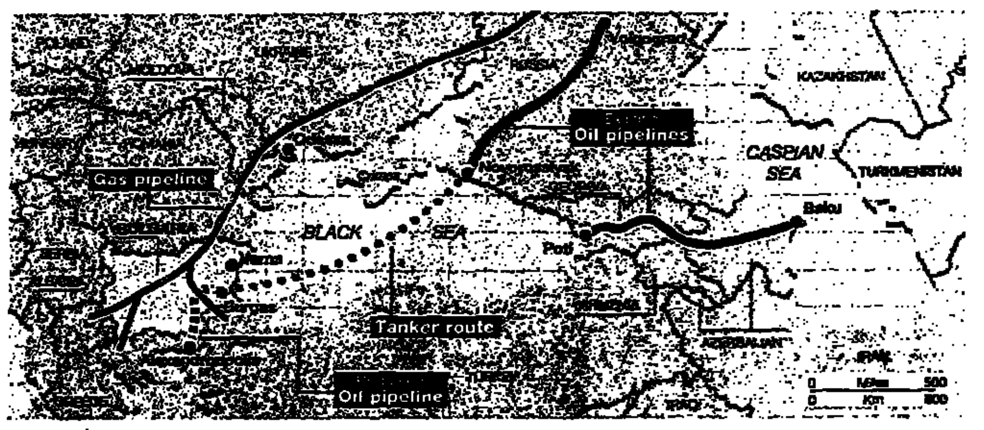
Few gas companies evoke so much emotion as Topenergy, the 50/50 joint venture set up between Russia's Gazprom and six Bulgarian companies to manage the supply and distribution of Russian gas to southern Europe through Bulgaria.

Andrei Lukanov, the Gorbachev-style reform communist who ousted the old dictator Todor Zhivkov in 1989 before being forced to resign and later jailed without charge for six months by the incoming Union of Democratic Forces (UDF) government, is the company chairman.

His re-emergence as the head of potentially the richest and most powerful company in Bulgaria has angered those who resent the return of key figures of the previous communist regime. But Topenergy has also re-awakened the fears of many Bulgarians that Moscow, which has traditionally viewed Bulgaria as Russia's little brother, is about to re-impose its suzerainty by making Bulgaria more dependent than ever on Russian energy.

"Sheer demagoguery," responds Mr Lukanov, interviewed at Topenergy's headquarters in the former East German embassy. It lies just across the road from the sprawling modern office complex which used to house the Soviet embassy and now, re-flagged and re-named, houses the embassy of the Russian Federation.

"Gas from Russia is simply the cheapest and most viable option for Bulgaria. We





invested over $1bn in helping to develop the Siberian gas fields and have been receiving 3.5bn cubic metres of gas annually for a decade in return. Those deliveries come to an end in 1997. Then we'll have to pay for gas at world prices, between $300m/$350m a year," he says. "Gazprom is offering gas at around $30 per thousand cubic metres less than imported liquefied gas," he adds.

Mr Lukanov signed the original co-operation deals with the Soviet gas industry. "I signed for Bulgarian participation in the Siberian gas development and for the transit of Soviet gas to Turkey and Greece. In 1989 we extended the network to Macedonia and Serbia," he recalls.

His Soviet counterpart in these deals was Victor Chernomyrdin, the chairman of Gazprom, the Soviet gas monopoly, who, as prime minister, still keeps a close eye on energy policy in a government where energy has replaced ideology as the linchpin of foreign policy. Mr Chernomyrdin set up the Topenergy deal with Mr Lukanov during his official visit to Sofia last year. The Bulgarian government only found out about it from the newspapers.

For Mr Lukanov the philosophy behind Topenergy is simple. "The Soviet Union, the Comecon trading group and

> Bulgaria is crucial to Gazprom's plans to increase sales

the convertible rouble have all disappeared. Gazprom itself is 60 per cent privatised. The creation of Topenergy simply reflects the switch from state to state contracts to market-oriented methods," he explains.

The switch began with an agreement to double the capital of the original 50/50 joint venture between Gazprom and Bulgargas, the Bulgarian state gas company, from Lv60m to Lv120m. Bulgargas did not participate in the share increase, opening the way for the entry of Bulbank, the largest state-owned bank, and four private companies.

At this point, however, the plot thickens. The ostensibly Bulgarian private shareholders are First Private Bank, the Chimimport trading company, Multigroup, the powerful group of former nomenklatura businessmen, and Overgas, a private gas distribution company. But at least two of these companies are believed to have substantial Russian capital behind them, effectively giving control to Russian groups.

The effective dilution of the Bulgarian state's shareholding in the transit gas company to 25 per cent, coupled with fears over effective Russian control, sparked off a subterranean political battle. But after Zhan Videnov, the prime minister, met Mr Chernomyrdin in Moscow last month the two sides signed a memorandum which essentially approved the new arrangements.

"Now we intend to widen the shareholder base and hence our access to funds," Mr Lukanov says. "We are currently preparing documents for the council of ministers and will soon start negotiations with the government on the terms of our concession," he adds.

The creation of Topenergy underlines Bulgaria's strategic importance to Gazprom which wants to increase sales to the Balkan region and Turkey. Gazprom is currently building a similar pipeline from the prolific gas fields of the northern Yamal peninsular through Poland to Germany and north European markets.

Turkey currently takes 5bn cu metres of gas annually. But by the year 2010 Ankara is expected to take the bulk of the 29bn cu m of gas which Gazprom plans to push south through the new pipeline through Ukraine, Romania and Bulgaria.

Bulgaria is crucial to these plans because it is from here that the transit pipelines branch out. They already extend to the Turkish, Greek and Macedonian borders, but only Turkey is actually taking delivery due to delays in constructing the connecting pipelines inside Greece and Macedonia.

Meanwhile, Bulgaria's own commitment to close down part of the potentially dangerous Kozlodui nuclear power station, which produces more than 40 per cent of its 7,200MW peak energy consumption, and to reduce dependence on polluting low quality coal and lignite is expected to increase Bulgaria's own gas consumption to around 8bn cu m by the year 2010.

If all these plans are fulfilled heavy investment will be required to raise the capacity of pipelines and pumping stations. "Over the next five to six years around $500m of investment will be required in Bulgaria alone," says Mr Lukanov. The investment will be recouped by transit fees, typically around 8 per cent of the value of the transmitted energy. "But for many years Topenergy will be investing heavily, not earning," Mr Lukanov notes. "Each shareholder will raise credits in proportion to its share in the capital. So Gazprom will put up 50 per cent of the funds needed by Topenergy which has the right to operate existing pipelines, build new ones and invest in further expansion of system," he says.

"We hope that this long-term investment, backed by good guarantees will enable us to attract the bulk of financing from western banks and credit institutions on commercial terms and from institutions such as the EBRD and the EIB," he added.

■ **Tourism:** by Theodor Troev

# Potential untapped

## Bulgaria has made little effort to promote its wealth of tourist attractions

Bulgarian tourism officials are optimistic about the long-term future of their travel industry, but western analysts believe its potential is largely untapped.

The past few years of neglect, and a power struggle between institutions such as the Committee of Tourism, the Privatisation Agency, and the still powerful managers of state-owned resorts and hotels have led to chaos. Private businessmen complain the government is focusing on putting the sector under control rather than encouraging private initiative.

Last summer the season was saved by the increasing number of Russian visitors – up 70 per cent from the previous summer – many of them big spenders. Foreign tourists overall were down 13 per cent, from 660,000 in the summer of 1994 to 611,000 in 1995. British tourists, who make up one of the biggest segments, fell more than 20 per cent, while the German market dropped by about 10 per cent. Western vacationers who accounted for almost 90 per cent of the 23,000 visitors to Bulgaria's winter resorts for the first three months of this year, also dropped by 4.7 per cent, compared to the same period in 1995.

Analysts fear that the situation has been aggravated by the consistent lack of national promotion policy. Bulgaria used to have more than 20 national tourism promotion offices abroad but most have been closed down. Most of the facilities in the big resorts are old and run-down and investment for upgrading them has been scarce.

Facing tough competition from neighbouring countries such as the rising travel market of Turkey and the market of Greece with its long traditions, Bulgaria has made little effort to promote its wealth of Thracian, Roman and Byzantine remains, its monasteries and mountains, and the untapped opportunities of special interest tours based on history, religion, spa treatment, and green tourism.

The committee of Tourism recently decided to establish a National Fund for Tourism Development and a special fund for promotion of Bulgarian resorts abroad. Part of the money will come from the public purse, and another part from hotel profits, as well as from charges to tour operators and fees from star rating and licensing.

A medium-term plan for tourism development until 1998 has also been drafted. Under the plan, tourism should generate 2.9 per cent of GDP this year, 3.7 per cent in 1997, and 4.2 per cent in 1998.

Western analysts have identified poor quality of road, services, and telecommunications systems, inhospitable airports, and obsolete and even unsafe hotels as drawbacks. Just 6 per cent of the country's high-class hotels were estimated to be within European standards. To attract more upmarket visitors, substantial investment will be needed to upgrade the existing facilities and to build new hotels.

Foreign investment has been scarce, however. A Hilton hotel was supposed to be inaugurated for the EBRD meeting in Sofia, but finance remains a problem. The fate of the project will perhaps depend on the EBRD meeting, when the city of Sofia will try to resume talks on a $15m EBRD loan. Another $10m is expected from French banks, while Feal International, the French partner of the Sofia municipality in the project, is supposed to finance the remaining $15m itself.

A more encouraging sign is the modest but increasing German investment in upgrading hotels in Bulgaria. Last month, at the International Tourism Exchange ITB-Berlin Germany's largest tour operators TUI, Neckermann and ITS said they would invest in the modernisation of several hotels on the Bulgarian Black Sea coast. Bookings of German vacationers for Bulgaria's summer season have risen 9 per cent.

But representatives of the German tour operators complain that the Bulgarian authorities seem reluctant to allow foreign companies to gain a firmer foothold on the local market. German operators have set up agencies through private Bulgarian companies on the Black Sea and are considering the opening of representative offices.